

APPENDIX I

ACCOUNTANT’S REPORT

The following is the text of a report set out on pages I-1 to [I-3], received from the Company’s reporting accountant, [PricewaterhouseCoopers], Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of HKSIR 200 Accountants’ Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

[Letterhead of PricewaterhouseCoopers]

[Draft]

ACCOUNTANT’S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF ORBUSNEICH MEDICAL GROUP HOLDINGS LIMITED AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED AND CCB INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of OrbusNeich Medical Group Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages [I-4] to [I-107], which comprises the consolidated balance sheets as at December 31, 2019, 2020 and 2021 and June 30, 2022, the Company’s balance sheets as at December 31, 2021 and June 30, 2022, and the consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended December 31, 2019, 2020 and 2021 and six months ended June 30, 2022 (the “Track Record Period”) and a summary of significant accounting policies and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages [I-4] to [I-107] forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [REDACTED] (the “Document”) in connection with the [REDACTED] of shares of the Company on the [REDACTED] of [REDACTED].

Directors’ responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant’s responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants’ Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified

APPENDIX I

ACCOUNTANT’S REPORT

Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant’s judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant’s report, a true and fair view of the financial position of the Company as at December 31, 2021 and June 30, 2022 and the consolidated financial position of the Group as at December 31, 2019, 2020 and 2021 and June 30, 2022 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended June 30, 2021 and other explanatory information (the “Stub Period Comparative Financial Information”). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A

APPENDIX I

ACCOUNTANT'S REPORT

review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 12 to the Historical Financial Information which states that no dividends have been paid by OrbusNeich Medical Group Holdings Limited in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

[PricewaterhouseCoopers]
Certified Public Accountants
Hong Kong, [Date]

I HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant’s report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA (“Underlying Financial Statements”).

The Historical Financial Information is presented in United States Dollars (“US\$”) and all values are rounded to the nearest thousand (US\$’000) except when otherwise indicated.

APPENDIX I

ACCOUNTANT’S REPORT

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	<i>Note</i>	Year ended December 31,			Six months ended	
		2019 <i>US\$'000</i>	2020 <i>US\$'000</i>	2021 <i>US\$'000</i>	2021 <i>US\$'000</i>	2022 <i>US\$'000</i>
					<i>(Unaudited)</i>	
Revenue	5	96,342	88,472	116,462	57,339	68,851
Cost of sales	8	<u>(30,895)</u>	<u>(30,452)</u>	<u>(35,290)</u>	<u>(16,790)</u>	<u>(21,137)</u>
Gross profit		65,447	58,020	81,172	40,549	47,714
Other income – net	6	1,162	2,406	1,385	674	393
Other gains/(losses) – net	7	338	904	(1,020)	(513)	(2,854)
Selling and distribution expenses	8	(32,251)	(26,694)	(30,100)	(14,654)	(16,475)
General and administrative expenses	8	(15,707)	(14,295)	(19,958)	(8,187)	(10,738)
Research and development expenses	8	(9,593)	(12,578)	(12,148)	(5,827)	(6,720)
Net (impairment losses)/reversal of impairment losses on financial assets	24	<u>(1,407)</u>	<u>931</u>	<u>109</u>	<u>158</u>	<u>(402)</u>
Operating profit		<u>7,989</u>	<u>8,694</u>	<u>19,440</u>	<u>12,200</u>	<u>10,918</u>
Finance income	10	21	12	12	6	249
Finance costs	10	<u>(503)</u>	<u>(1,405)</u>	<u>(5,607)</u>	<u>(1,048)</u>	<u>(1,407)</u>
Finance costs – net		<u>(482)</u>	<u>(1,393)</u>	<u>(5,595)</u>	<u>(1,042)</u>	<u>(1,158)</u>
Fair value losses of convertible redeemable preferred shares	29	–	–	(14,397)	(6,030)	–
Loss on derecognition of financial liability in relation to convertible redeemable preferred shares	29	–	–	(559)	–	–
Share of loss of investment in a joint venture	21	<u>–</u>	<u>(46)</u>	<u>(207)</u>	<u>(149)</u>	<u>(71)</u>

APPENDIX I

ACCOUNTANT’S REPORT

		Year ended December 31,		Six months ended		
	Note	2019	2020	2021	June 30,	
		US\$'000	US\$'000	US\$'000	2021	
					2022	
					US\$'000	
					(Unaudited)	
Profit/(loss) before income tax		7,507	7,255	(1,318)	4,979	9,689
Income tax expense	11	(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>
Earnings/(loss) per share Basic	13	<u>0.24</u>	<u>0.25</u>	<u>(0.15)</u>	<u>0.12</u>	<u>0.28</u>
Diluted		<u>0.24</u>	<u>0.25</u>	<u>(0.15)</u>	<u>0.12</u>	<u>0.24</u>

APPENDIX I

ACCOUNTANT’S REPORT

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	<i>Note</i>	Year ended December 31,			Six months ended	
		2019	2020	2021	June 30,	2022
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Profit/(loss) for the year/period		6,958	7,071	(4,444)	3,321	8,037
Other comprehensive (loss)/income:						
<i>Item that will not be subsequently reclassified to profit or loss</i>						
Remeasurements of post-employment benefit obligations	30	40	(134)	(340)	(38)	246
<i>Items that may be subsequently reclassified to profit or loss</i>						
Currency translation differences		(256)	1,246	(3,394)	(2,056)	(4,084)
Realization of accumulated exchange difference upon dissolution of subsidiaries		—	17	(8)	(8)	—
Other comprehensive (loss)/income for the year/period, net of tax		(216)	1,129	(3,742)	(2,102)	(3,838)
Total comprehensive income/(loss) for the year/period		6,742	8,200	(8,186)	1,219	4,199

APPENDIX I

ACCOUNTANT’S REPORT

CONSOLIDATED BALANCE SHEETS

		As at December 31,			As at
	<i>Note</i>	2019	2020	2021	June 30,
		<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	2022
					<i>US\$’000</i>
ASSETS					
Non-current assets					
Property, plant and equipment	14	11,994	10,485	8,874	8,219
Right-of-use assets	15	3,414	2,066	4,567	4,583
Deferred income tax assets	17	2,967	3,539	2,859	2,123
Financial assets at fair value					
through profit or loss	18	1,829	2,048	2,041	20,527
Intangible assets	19	335	3,966	4,267	4,138
Goodwill	20	–	1,749	1,749	1,749
Interest in a joint venture	21	–	5,051	7,888	7,817
Deposits, prepayments and other receivables	22	976	275	927	1,256
Total non-current assets		<u>21,515</u>	<u>29,179</u>	<u>33,172</u>	<u>50,412</u>
Current assets					
Inventories	23	26,036	30,038	29,570	27,900
Trade receivables	24	32,609	26,316	26,804	29,700
Deposits, prepayments and other receivables	22	1,332	2,077	2,796	3,925
Amounts due from joint ventures	39	–	90	11	22
Amounts due from related companies	39	177	326	–	–
Tax recoverable		392	508	288	202
Pledged bank deposit	25	–	–	–	15,000
Short-term bank deposit	25	–	–	–	20,000
Cash and cash equivalents	25	13,631	15,112	175,886	131,619
Total current assets		<u>74,177</u>	<u>74,467</u>	<u>235,355</u>	<u>228,368</u>
Total assets		<u>95,692</u>	<u>103,646</u>	<u>268,527</u>	<u>278,780</u>

APPENDIX I

ACCOUNTANT’S REPORT

		As at December 31,			As at
	Note	2019	2020	2021	June 30,
		US\$'000	US\$'000	US\$'000	2022
					US\$'000
EQUITY					
Capital and reserves					
attributable to owners of the					
Company					
Share capital	26	–	–	288	288
Other reserves	28	(7,163)	172,797	325,509	386,840
Accumulated losses	28	(145,128)	(137,901)	(142,685)	(134,402)
Total (deficit)/equity		<u>(152,291)</u>	<u>34,896</u>	<u>183,112</u>	<u>252,726</u>
LIABILITIES					
Non-current liabilities					
Lease liabilities	15	1,285	557	2,499	2,657
Convertible redeemable preferred shares	29	–	–	63,711	–
Retirement benefit obligations	30	2,227	2,541	2,755	2,208
Loans from related companies	31,39	–	10,186	–	–
Amount due to a related company	39	99,790	–	–	–
Total non-current liabilities		<u>103,302</u>	<u>13,284</u>	<u>68,965</u>	<u>4,865</u>
Current liabilities					
Trade payables	32	3,506	1,364	2,174	3,875
Accruals and other payables	33	13,023	12,761	11,866	14,217
Amount due to a joint venture	39	–	–	–	129
Amount due to a related company	39	88,193	–	–	–
Current income tax liabilities		27	521	927	1,572
Bank borrowings	34	38,462	39,898	–	–
Lease liabilities	15	1,470	922	1,483	1,396
Total current liabilities		<u>144,681</u>	<u>55,466</u>	<u>16,450</u>	<u>21,189</u>
Total liabilities		<u>247,983</u>	<u>68,750</u>	<u>85,415</u>	<u>26,054</u>
Total equity and liabilities		<u>95,692</u>	<u>103,646</u>	<u>268,527</u>	<u>278,780</u>

APPENDIX I

ACCOUNTANT’S REPORT

BALANCE SHEET OF THE COMPANY

	<i>Note</i>	As at December 31, 2021 US\$’000	As at June 30, 2022 US\$’000
ASSETS			
Non-current assets			
Investment in a subsidiary	16	30,265	30,633
Financial assets at fair value through profit or loss	18	<u>–</u>	<u>18,734</u>
Total non-current assets		<u>30,265</u>	<u>49,367</u>
Current assets			
Prepayments and other receivables	22	881	1,293
Amounts due from subsidiaries	39	64,544	110,971
Short-term bank deposit	25	–	20,000
Cash and cash equivalents	25	<u>149,104</u>	<u>60,831</u>
Total current assets		<u>214,529</u>	<u>193,095</u>
Total assets		<u>244,794</u>	<u>242,462</u>
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	26	288	288
Other reserves	28	185,040	250,455
Accumulated losses	28	<u>(5,606)</u>	<u>(10,750)</u>
		<u>179,722</u>	<u>239,993</u>

APPENDIX I

ACCOUNTANT’S REPORT

	<i>Note</i>	As at December 31, 2021 US\$’000	As at June 30, 2022 US\$’000
LIABILITIES			
Non-current liability			
Convertible redeemable preferred shares	29	63,711	–
Total non-current liability		63,711	–
Current liabilities			
Accruals and other payables	33	1,329	2,469
Amount due to a subsidiary	39	32	–
Total current liabilities		1,361	2,469
Total liabilities		65,072	2,469
Total equity and liabilities		244,794	242,462

APPENDIX I

ACCOUNTANT’S REPORT

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital <i>US\$'000</i>	Other reserves <i>US\$'000</i> <i>(Note 28)</i>	Accumulated losses <i>US\$'000</i> <i>(Note 28)</i>	Total <i>US\$'000</i>
At January 1, 2019	–	(6,845)	(152,188)	(159,033)
Profit for the year	–	–	6,958	6,958
Other comprehensive (loss)/income:				
– Remeasurements of post-employment benefit obligations	–	–	40	40
– Currency translation differences	–	(256)	–	(256)
Total other comprehensive (loss)/income, net of tax	–	(256)	40	(216)
Total comprehensive (loss)/income	–	(256)	6,998	6,742
Transaction with owner:				
– Employee share option scheme: lapse of share options	–	(62)	62	–
Total transaction with owner	–	(62)	62	–
At December 31, 2019	–	(7,163)	(145,128)	(152,291)

APPENDIX I

ACCOUNTANT’S REPORT

	Share capital <i>US\$'000</i>	Other reserves <i>US\$'000</i> <i>(Note 28)</i>	Accumulated losses <i>US\$'000</i> <i>(Note 28)</i>	Total <i>US\$'000</i>
At January 1, 2020	–	(7,163)	(145,128)	(152,291)
Profit for the year	–	–	7,071	7,071
Other comprehensive income/(loss):				
– Remeasurements of post-employment benefit obligations	–	–	(134)	(134)
– Realization of accumulated exchange difference upon dissolution of a subsidiary	–	17	–	17
– Currency translation differences	–	1,246	–	1,246
Total other comprehensive income/(loss), net of tax	–	1,263	(134)	1,129
Total comprehensive income	–	1,263	6,937	8,200
Transactions with owner:				
– Deemed contribution <i>(Note 1.2)</i>	–	187,828	–	187,828
– Deemed distribution to shareholders <i>(Note 28(a))</i>	–	(8,841)	–	(8,841)
– Employee share option scheme: lapse of share options	–	(290)	290	–
Total transactions with owner	–	178,697	290	178,987
At December 31, 2020	–	172,797	(137,901)	34,896

APPENDIX I

ACCOUNTANT’S REPORT

	Share capital <i>US\$'000</i>	Other reserves <i>US\$'000</i> <i>(Note 28)</i>	Accumulated losses <i>US\$'000</i> <i>(Note 28)</i>	Total <i>US\$'000</i>
At January 1, 2021	–	172,797	(137,901)	34,896
Loss for the year	–	–	(4,444)	(4,444)
Other comprehensive loss:				
– Remeasurements of post-employment benefit obligations	–	–	(340)	(340)
– Realization of accumulated exchange difference upon dissolution of subsidiaries	–	(8)	–	(8)
– Currency translation differences	–	(3,394)	–	(3,394)
Total other comprehensive loss, net of tax	–	(3,402)	(340)	(3,742)
Total comprehensive loss	–	(3,402)	(4,784)	(8,186)
Transactions with owners:				
– Issuance of share	–*	–	–	–*
– Issuance of shares pursuant to share swap <i>(Note 26(c))</i>	288	(288)	–	–
– Reclassification of Series A-2 Preferred Shares upon completion of the Reorganization <i>(Note 28(b))</i>	–	167,193	–	167,193
– Changes in value of Series A Preferred Shares upon completion of the Reorganization	–	(12,130)	–	(12,130)
– Employee share option scheme: value of employee services	–	1,339	–	1,339
Total transactions with owners	288	156,114	–	156,402
At December 31, 2021	<u>288</u>	<u>325,509</u>	<u>(142,685)</u>	<u>183,112</u>

* The amount is less than US\$1,000.

APPENDIX I

ACCOUNTANT’S REPORT

	Share capital <i>US\$'000</i>	Other reserves <i>US\$'000</i> <i>(Note 28)</i>	Accumulated losses <i>US\$'000</i> <i>(Note 28)</i>	Total <i>US\$'000</i>
At January 1, 2022	288	325,509	(142,685)	183,112
Profit for the period	–	–	8,037	8,037
Other comprehensive (loss)/income:				
– Remeasurements of post-employment benefit obligations	–	–	246	246
– Currency translation differences	–	(4,084)	–	(4,084)
Total other comprehensive (loss)/income, net of tax	–	(4,084)	246	(3,838)
Total comprehensive (loss)/income	–	(4,084)	8,283	4,199
Transactions with owners:				
– Reclassification from financial liabilities to equity for Series A Preferred Shares <i>(Note 28(e))</i>	–	65,047	–	65,047
– Employee share option scheme: value of employee services	–	368	–	368
Total transactions with owners	–	65,415	–	65,415
At June 30, 2022	288	386,840	(134,402)	252,726

APPENDIX I

ACCOUNTANT’S REPORT

	Share capital <i>US\$'000</i>	Other reserves <i>US\$'000</i> <i>(Note 28)</i>	Accumulated losses <i>US\$'000</i> <i>(Note 28)</i>	Total <i>US\$'000</i>
(Unaudited)				
At January 1, 2021	–	172,797	(137,901)	34,896
Profit for the period	–	–	3,321	3,321
Other comprehensive loss:				
– Remeasurements of post-employment benefit obligations	–	–	(38)	(38)
– Realization of accumulated exchange difference upon dissolution of subsidiaries	–	(8)	–	(8)
– Currency translation differences	–	(2,056)	–	(2,056)
Total other comprehensive loss, net of tax	–	(2,064)	(38)	(2,102)
Total comprehensive loss	–	(2,064)	3,283	1,219
Transactions with owners:				
– Employee share option scheme: value of employee services	–	670	–	670
Total transactions with owners	–	670	–	670
At June 30, 2021	–	171,403	(134,618)	36,785

APPENDIX I

ACCOUNTANT’S REPORT

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Year ended December 31,			Six months ended	
		2019 US\$'000	2020 US\$'000	2021 US\$'000	June 30, 2021 US\$'000	2022 US\$'000
<i>(Unaudited)</i>						
Cash flows from operating activities						
Cash generated from operations	35(a)	3,949	13,290	22,344	14,829	14,102
Income tax paid		(2,434)	(895)	(2,044)	(740)	(199)
Income tax refunded		75	271	198	198	21
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash generated from operating activities		1,590	12,666	20,498	14,287	13,924
Cash flows from investing activities						
Purchase of property, plant and equipment		(2,732)	(943)	(1,247)	(698)	(935)
Proceeds from disposal of property, plant and equipment	35(b)	45	113	217	16	99
Purchase of intangible assets		(338)	(2,813)	(894)	(668)	(271)
Capital contribution to a joint venture		–	(5,097)	–	–	–
Advance to a joint venture		–	–	(3,044)	–	–
Increase in short-term bank deposit		–	–	–	–	(20,000)
Increase in pledged bank deposit		–	–	–	–	(15,000)
Purchase of financial assets at fair value through profit or loss		(341)	(390)	(407)	(206)	(20,180)
Proceeds from disposal of financial assets at fair value through profit or loss	35(c)	292	157	144	34	11
Payment for acquisition of a subsidiary, net of cash acquired	38	–	(2,240)	–	–	–
Disposal of subsidiaries, net of cash disposed		–	(44)	–	–	–
Interest received		21	12	12	6	99
		<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash used in investing activities		(3,053)	(11,245)	(5,219)	(1,516)	(56,177)

APPENDIX I

ACCOUNTANT’S REPORT

	<i>Note</i>	Year ended December 31,			Six months ended	
		2019	2020	2021	June 30,	2022
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
					<i>(Unaudited)</i>	
Cash flows from financing activities						
Interest paid		(501)	(1,335)	(752)	(443)	(70)
Principal elements of lease payments	35(e)	(1,497)	(1,363)	(1,297)	(707)	(698)
Proceeds from bank borrowings	35(e)	38,462	4,513	3,057	3,057	5,000
Repayment of bank borrowings	35(e)	–	(3,411)	(42,955)	(7,077)	(5,000)
Proceeds from loans from related companies	35(e)	–	5,128	230	230	–
Repayment to a related company	35(e)	(35,259)	(4,005)	(10,416)	(5,022)	–
Net proceeds from issuance of convertible redeemable preferred shares <i>(Note 29)</i>	35(e)	–	–	198,965	34,681	–
Payment for [REDACTED]		–	–	[REDACTED]	[REDACTED]	[REDACTED]
Net cash generated from/(used in) financing activities		<u>1,205</u>	<u>(473)</u>	<u>146,308</u>	<u>24,650</u>	<u>(852)</u>
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		<u>77</u>	<u>533</u>	<u>(813)</u>	<u>(873)</u>	<u>(1,162)</u>
Cash and cash equivalents at end of year/period	25	<u>13,631</u>	<u>15,112</u>	<u>175,886</u>	<u>51,660</u>	<u>131,619</u>

APPENDIX I

ACCOUNTANT’S REPORT

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 General information, reorganization and basis of presentation

1.1 General information

OrbusNeich Medical Group Holdings Limited (the “Company”) is a limited liability company incorporated and domiciled in the Cayman Islands. The address of its registered office is Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries (collectively, the “Group”), are principally engaged in the manufacturing, trading, sales and marketing of medical devices/instruments used for the treatment of coronary and peripheral vascular diseases (the “[REDACTED]”). The immediate and ultimate holding company is Harmony Tree Limited, a company incorporated in the British Virgin Islands with limited liability. The ultimate controlling shareholder of the Group is Mr. David Chien and Ms. Lau Kwai Ching Denise, spouse of Mr. David Chien (the “Controlling Shareholders”).

1.2 Reorganization

Immediately prior to the Reorganization (as defined below) and during the Track Record Period, the [REDACTED] were operated by OrbusNeich Medical Group Limited (“ONM Group Ltd.”) and its subsidiaries (the “Operating Companies”). The Operating Companies were collectively controlled by the Controlling Shareholders throughout the Track Record Period.

In preparation for the [REDACTED] (“[REDACTED]”) and [REDACTED] (the “[REDACTED]”) of the Company’s shares on the [REDACTED] of [REDACTED], a group reorganization (the “Reorganization”) was undertaken pursuant to which the companies engaged in the [REDACTED] were transferred to the Company. The Reorganization involved the following steps:

- (i) Cosmic Ascent Limited (“COSMIC”) was incorporated in the British Virgin Islands (“BVI”) with limited liability on July 7, 2020. COSMIC was held by Harmony Tree Limited and eight individual minority shareholders (“Initial COSMIC Shareholders”) as to 98.53% and 1.47% respectively prior to the Reorganization.
- (ii) On July 31, 2020, a balance due by ONM Group Ltd., amounting to US\$187,828,000, to OrbusNeich Medical Company Limited (“ONM BVI”), a company incorporated in the BVI and controlled by Mr. David Chien through Belinfer Corporation, a company incorporated in Panama with limited liability, was waived and recognised as other reserve of ONM Group Ltd. On the same date, the entire equity interest in ONM Group Ltd. was transferred from ONM BVI to COSMIC at a consideration of approximately US\$187,828,000. The consideration was settled by way of issuance of 1,878,278,823 shares in COSMIC to the shareholders of ONM BVI. As a result of the transaction, ONM Group Ltd. became a wholly-owned subsidiary of COSMIC.
- (iii) On April 23, 2021, ONM Group Ltd. and three series A pre-[REDACTED] independent investors (the “Series A Investors”) entered into a share subscription agreement, pursuant to which ONM Group Ltd. issued and allotted 234,784,854 convertible redeemable preferred shares (“series A preferred shares”) to the Series A Investors at a consideration of US\$35,000,000.
- (iv) On June 10, 2021, ONM Group Ltd. and eight series A-2 pre-[REDACTED] independent investors (the “Series A-2 Investors”) entered into a share subscription agreement, pursuant to which ONM Group Ltd. issued and allotted 746,400,213 convertible redeemable preferred shares (“series A-2 preferred shares”) to the Series A-2 Investors in July 2021 and August 2021 at a consideration of US\$167,500,000.
- (v) On July 7, 2021, COSMIC transferred its entire equity interest in OrbusNeich HeartValve Company Limited to ONM Group Ltd. at a consideration of US\$150,000,000. The consideration was satisfied by the allotment and issuance of 1,006,220,798 new shares of ONM Group Ltd. credited as fully paid to COSMIC.

APPENDIX I

ACCOUNTANT’S REPORT

- (vi) On July 22, 2021, the Company was incorporated in the Cayman Islands as an exempted company with limited liability and authorized share capital of US\$50,000 divided into 500,000,000 shares with par value of US\$0.0001. On the same day, the initial subscriber transferred one ordinary share at par to Harmony Tree Limited.
- (vii) On August 20, 2021, the Controlling Shareholders transferred 117,210,115 shares and 42,977,042 shares of COSMIC to Mr. Kelvin Kai Hang Lau (“Mr. Lau”), a family member of the Controlling Shareholders, and one of the Initial COSMIC Shareholders respectively.
- (viii) On September 28, 2021, Harmony Tree Limited, the Initial COSMIC Shareholders and Mr. Lau transferred the entire equity interest in COSMIC to the Company in return of 90.40%, 3.36% and 6.24% of the equity interest of the Company respectively.
- (ix) The Company, the Series A Investors, Series A-2 Investors, COSMIC, ONM Group Ltd. and OrbusNeich Medical Company Limited (業聚醫療有限公司) (“ONM HK”) entered into a share agreement on September 28, 2021. Upon the completion of the share exchange, ONM Group Ltd. became wholly owned by COSMIC, a direct wholly-owned subsidiary of the Company.

The Reorganization was completed on September 28, 2021. Upon completion of the Reorganization, substantially all of the equity holders of COSMIC became the shareholders of the Company, and the Company became the holding company of the Operating Companies.

After the completion of the Reorganization and as at the date of this report, the Company has direct or indirect interests in the following subsidiaries:

Company name	Place and date of incorporation/ establishment and type of legal entity	Registered/ issued and paid-up capital	Attributable equity interest of the Group				As at the date of this report	Principal activities and place of operation	Note
			December 31, 2019	2020	2021	June 30, 2022			
Directly owned									
Cosmic Ascent Limited	BVI, July 7, 2020, limited liability company	US\$187,827,882	N/A	100%	100%	100%	100%	Investment holding, BVI	(i)
Indirectly owned									
OrbusNeich Medical Group Limited	Cayman Islands, June 8, 2017, limited liability company	US\$386,568	100%	100%	100%	100%	100%	Investment holding, Cayman Islands	(i)
OrbusNeich Medical Investment Holdings Limited	BVI, May 15, 2017, limited liability company	US\$2	100%	100%	100%	100%	100%	Investment holding, BVI	(i)
OrbusNeich Medical Cyprus Holding Company Limited	Cyprus, May 17, 2006, limited liability company	Cyprus Pound 1,000	100%	100%	100%	100%	100%	Investment holding, Cyprus	(ii)
OrbusNeich Medical Holding B.V.	The Netherlands, May 30, 2001, limited liability company	EUR18,000	100%	100%	100%	100%	100%	Investment holding, The Netherlands	(iii)

APPENDIX I

ACCOUNTANT’S REPORT

Company name	Place and date of incorporation/ establishment and type of legal entity	Registered/ issued and paid-up capital	Attributable equity interest of the Group				As at the date of this report	Principal activities and place of operation	Note
			December 31, 2019	2020	2021	June 30, 2022			
OrbusNeich Medical B.V.	The Netherlands, July 13, 2006, limited liability company	EUR18,000	100%	100%	100%	100%	100%	Manufacturing of medical devices/ instruments, The Netherlands	(iii)
OrbusNeich Medical Trading Holdings Company Limited	BVI, May 15, 2017, limited liability company	US\$1	100%	100%	100%	100%	100%	Investment holding, BVI	(i)
OrbusNeich Medical Manufacturing Holdings (BV) Company Limited	BVI, May 15, 2017, limited liability company	US\$1	100%	100%	100%	100%	100%	Investment holding, BVI	(i)
OrbusNeich Medical Manufacturing Holdings (APAC) Company Limited	BVI, May 15, 2017, limited liability company	US\$2	100%	100%	100%	100%	100%	Investment holding, BVI	(i)
OrbusNeich Medical Company Limited (業聚醫療有限公司)	Hong Kong, February 23, 1998, limited liability company	HK\$2	100%	100%	100%	100%	100%	Trading, sales and marketing of medical devices/ instruments, Hong Kong	(iv)
OrbusNeich Medical Sdn. Bhd.	Malaysia, December 23, 2004, limited liability company	Malaysian Ringgit 2,500	100%	100%	100%	100%	100%	Trading of medical devices/ instruments, Malaysia	(viii)
OrbusNeich Medical K.K.	Japan, September 13, 2001, limited liability company	JPY90,000,000	100%	100%	100%	100%	100%	Trading, sales and marketing of medical devices/ instruments, Japan	(vii)
OrbusNeich Medical K.K. Foundation	Japan, September 4, 2013, limited liability company	JPY3,000,000	100%	100%	100%	100%	100%	Dormant, Japan	(vii)
Advanced Medical Works K.K.	Japan, June 13, 2017, limited liability company	JPY500,000	100%	100%	100%	100%	100%	Research and development of medical devices/ instruments, Japan	(vii)
OrbusNeich Medical Pty Limited	Australia, March 29, 2001, limited liability company	Australian Dollar 100	100%	100%	100%	100%	100%	Trading of medical devices/instruments, Australia	(vii)

APPENDIX I

ACCOUNTANT’S REPORT

Company name	Place and date of incorporation/ establishment and type of legal entity	Registered/ issued and paid-up capital	Attributable equity interest of the Group				As at the date of this report	Principal activities and place of operation	Note
			December 31, 2019	2020	2021	June 30, 2022			
OrbusNeich Medical Investments Limited B.V.	The Netherlands, July 20, 2017, limited liability company	EUR1	100%	100%	100%	100%	100%	Investment holding, The Netherlands	(iii)
Orbus International B.V.	The Netherlands, March 10, 1999, limited liability company	EUR45,320,279	100%	100%	100%	100%	100%	Trading, sales and marketing of medical devices/ instruments, The Netherlands	(iii)
OrbusNeich (Switzerland) AG	Switzerland, January 3, 2018, limited liability company	CHF100,000	N/A	100%	100%	100%	100%	Trading, sales and marketing of medical devices/ instruments, Switzerland	(vii)
OrbusNeich Medical Pte. Ltd.	Singapore, August 16, 1995, limited liability company	Singaporean Dollar 2	100%	100%	100%	100%	100%	Trading, sales and marketing of medical devices/ instruments, Singapore	(vi)
OrbusNeich Medical India Private Limited	India, March 9, 2009, limited liability company	Indian Rupee 100,000	100%	100%	100%	100%	100%	Trading, sales and marketing of medical devices/ instruments, India	(ix)
OrbusNeich Medical Trading, Inc.	The United States of America (the “USA”), September 14, 2017, limited liability company	US\$1	100%	100%	100%	100%	100%	Research and development of medical devices/ instruments, USA	(i)
OrbusNeich Medical, Sociedad Limitada	Spain, July 2, 2016, limited liability company	EUR3,000	100%	100%	100%	100%	100%	Trading, sales and marketing of medical devices/ instruments, Spain	(vii)
OrbusNeich Medical GmbH	Germany, December 1, 2007, limited liability company	EUR25,000	100%	100%	100%	100%	100%	Trading, sales and marketing of medical devices/ instruments, Germany	(vii)

APPENDIX I

ACCOUNTANT’S REPORT

Company name	Place and date of incorporation/ establishment and type of legal entity	Registered/ issued and paid-up capital	Attributable equity interest of the Group				As at the date of this report	Principal activities and place of operation	Note
			December 31,			June 30,			
			2019	2020	2021	2022			
OrbusNeich Medical (Shenzhen) Company Limited (業聚醫療器械(深圳)有限公司)	People’s Republic of China (the “PRC”), May 29, 2000, Wholly foreign owned enterprises	US\$5,000,000	100%	100%	100%	100%	100%	Manufacturing of medical devices/ instruments, The PRC	(v)
OrbusNeich Medical I.P. Holdings (Stent) Company Limited	BVI, May 15, 2017, limited liability company	US\$1	100%	100%	100%	100%	100%	Investment holding, BVI	(i)
OrbusNeich Medical, Inc.	USA, July 28, 1999, limited liability company	US\$193,090	100%	100%	100%	100%	100%	Research and development of medical devices/ instruments, USA	(i)
OrbusNeich HeartValve Company Limited	BVI, May 15, 2017, limited liability company	US\$1	100%	100%	100%	100%	100%	Investment holding, BVI	(i)
OrbusNeich International B.V.	The Netherlands, April 1, 2021, limited liability company	EUR1	N/A	N/A	100%	100%	100%	Inactive, The Netherlands	(x)
OrbusNeich Medical Technology (Beijing) Company Limited ((業聚醫療技術(北京)有限公司)	The PRC, July 8, 2021, limited liability company	RMB1,000,000	N/A	N/A	100%	100%	100%	Research and development of medical devices/ instruments, The PRC	(xi)

Notes:

- (i) No audited financial statements were issued for these subsidiaries as there is no statutory audit requirement in their place of incorporation.
- (ii) The statutory financial statements of the company for the years ended December 31, 2019, 2020 and 2021 were audited by Joannides + Co Limited, Certified Public Accountants.
- (iii) The statutory financial statements of these companies for the years ended December 31, 2019 and 2020, were audited by Coney Assurance B.V., Certified Public Accountants. The statutory financial statements for the year ended December 31, 2021 have not yet been issued.
- (iv) The statutory financial statements of the company for the years ended December 31, 2019, 2020 and 2021 were audited by PricewaterhouseCoopers, Certified Public Accountants.
- (v) The statutory financial statements of the company for the years ended December 31, 2019, 2020 and 2021 were audited by Shenzhen Huaqin Certified Public Accountants’ Firm 深圳華勤會計師事務所, Certified Public Accountants.

APPENDIX I

ACCOUNTANT’S REPORT

- (vi) The statutory financial statements of the company for the year ended December 31, 2019 were audited by P G Wee Partnership LLP, Certified Public Accountants and for the years ended December 31, 2020 and 2021 were audited by Precursor Assurance PAC, Certified Public Accountants.
- (vii) No statutory financial statements have been prepared for these companies during the Track Record Period as they are exempted from statutory audit requirements.
- (viii) The statutory financial statements of the company for the years ended December 31, 2019, 2020 and 2021 were audited by Mohamed, Yeng & Co., Certified Public Accountants.
- (ix) The statutory financial statements of the company for the years ended December 31, 2019, 2020 and 2021 were audited by D.S.K. & Associates, Chartered Accountants.
- (x) No audited financial statements were issued as the company was newly incorporated.
- (xi) The statutory financial statements of the company for the period ended December 31, 2021 were audited by Shenzhen Huaqin Certified Public Accountants’ Firm 深圳華勤會計師事務所, Certified Public Accountants.

1.3 Basis of presentation

Immediately prior to and after the Reorganization, the [REDACTED] is conducted through the Operating Companies. Pursuant to the Reorganization, the [REDACTED] was transferred to and held by the Company. The 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 the Operating Companies.

For the purpose of this report, the Historical 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 group companies in the [REDACTED] were eliminated on consolidation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years and periods presented, unless otherwise stated.

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Historical Financial Information which are in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by Hong Kong Institute of Certified Public Accountants (the “HKICPA”) are set out below. The Historical Financial Information have been prepared under the historical cost basis, except for financial assets at fair value through profit or loss or other comprehensive income, convertible redeemable preferred shares and contingent liabilities, which are carried at fair value.

All effective standards, amendments to standards and interpretations, which are mandatory for the financial year beginning January 1, 2022, have been consistently applied to the Group for the Track Record Period.

The preparation of Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management of the Group to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

APPENDIX I

ACCOUNTANT’S REPORT

The followings are new standard, amendments to standards and interpretation which have been issued but are not yet effective during the Track Record Period and have not been early adopted by the Group in preparing the Historical Financial Information:

		Effective for accounting year beginning on or after
HKFRS 17	Insurance Contracts and the Related Amendments	January 1, 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	January 1, 2023
Amendments to HKAS 8	Definition of Accounting Estimates	January 1, 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	January 1, 2023
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group will adopt the above new standard, amendments to standards and interpretation as and when they become effective. The directors of the Company have performed preliminary assessment and do not anticipate any significant impact on the Group’s financial position and results of operations upon adopting these standard, amendments and interpretation to existing HKFRSs.

2.2 Principles of consolidation

2.2.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.2.4).

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statements of profit or loss, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated balance sheets respectively.

2.2.2 Common control business combinations

Merger accounting method stipulated under Hong Kong Accounting Guideline 5, ‘Merger accounting for common control combinations’ is used to account for acquisitions of businesses under common control before and after the acquisitions. The difference between fair value of acquisition consideration and carrying amount of net assets acquired is adjusted to merger reserve.

The Historical Financial Information incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party.

APPENDIX I

ACCOUNTANT’S REPORT

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties’ perspective. No amount is recognized in respect of goodwill or excess of acquirer’s interest in the net fair value of acquired identifiable assets and liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party’s interest.

The consolidated statements of profit or loss includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if those entities or businesses had been consolidated at the previous reporting date or when they first came under common control, whichever is shorter.

Business combination related costs are generally recognized in consolidated statements of profit or loss as incurred.

2.2.3 Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

2.2.4 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred,
- liabilities incurred to the former owners of the acquired business,
- equity interests issued by the Group,
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest’s proportionate share of the acquired entity’s net identifiable assets.

APPENDIX I

ACCOUNTANT’S REPORT

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity’s incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in profit or loss.

2.2.5 Joint arrangements

Under HKFRS 11 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangement and determined it to be joint venture. Joint venture is accounted for using the equity method.

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group’s share of the post-acquisition profits or losses of the investee in profit or loss, and the Group’s share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from a joint venture are recognized as a reduction in the carrying amount of the investment.

Where the Group’s share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Group and its joint venture are eliminated to the extent of the Group’s interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.8.

2.3 Segment reporting

Operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (“CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Executive Directors of the Company that make strategic decisions.

APPENDIX I

ACCOUNTANT’S REPORT

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The consolidated financial statements are presented in US\$, which is the Company’s functional and Group’s presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of profit or loss. Foreign exchange gains and losses are presented in the consolidated statements of profit or loss within “other gains/(losses) – net”.

(c) *Group companies*

The results and financial position of all the Group’s entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each consolidated statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting currency translation differences are recognized in other comprehensive income.

2.5 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 the 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.

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.

APPENDIX I

ACCOUNTANT’S REPORT

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 (Note 2.8).

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 the 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.

2.6 Intangible assets

Intangible assets comprise (i) expenditure on product development activities; and (ii) customer relationship.

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalized includes the costs of materials, direct labor, and an appropriate proportion of overheads. Capitalized development costs are stated at cost less accumulated amortization and impairment losses. Other development expenditure is recognized as an expense in the period in which it is incurred.

Customer relationships acquired in a business combination are recognized at fair value at the acquisition date. Customer relationships have finite useful lives and are carried at costs less accumulated amortization and impairment losses.

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

Capitalized development costs	10 years
Customer relationships	9 years

2.7 Goodwill

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. 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 for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units 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.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

APPENDIX I

ACCOUNTANT’S REPORT

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statements of profit or loss.

2.9 Financial assets

(a) *Classification*

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

(b) *Recognition and derecognition*

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) *Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented within “other gains/(losses) – net”.

Assets that do not meet the criteria for amortised or fair value through other comprehensive income (“FVOCI”) are measured at fair value through profit or loss (“FVPL”). A gain or loss on a debt instrument that is subsequently measured at FVPL is recognised in profit or loss and presented within “other gains/(losses) – net” in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group’s management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group’s right to receive payments is established.

APPENDIX I

ACCOUNTANT’S REPORT

Changes in the fair value of financial assets at fair value through profit or loss are recognized as “other gains/(losses) – net” in the consolidated statements of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

(d) Impairment

The Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. For the other financial assets, expected credit losses are assessed according to change in credit quality since initial recognition.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2.11 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.

2.12 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. The Group holds 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. See Note 24 for further information about the Group’s accounting for trade receivables and Note 3.1(b) for a description of the Group’s impairment policies.

2.13 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank deposits with original maturities more than three months are included within “short-term bank deposit” in the consolidated balance sheets.

Cash that is being pledged as security is reported separately on the face of the consolidated balance sheet, and is not included in total cash and cash equivalents in the consolidated statement of cash flows.

2.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

APPENDIX I

ACCOUNTANT’S REPORT

2.15 Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

2.16 Convertible redeemable preferred shares (“Preferred Shares”)

Preferred Shares issued by the Group are redeemable at the option of the holder upon occurrence of certain events. These instruments can also be converted into ordinary shares at any time at the option of the holders, or automatically upon occurrence of an [REDACTED]. For details, refer to Note 29.

Derivatives embedded in Preferred Shares are treated as separate derivatives when:

- Their economic characteristics and risks are not closely related to those of the host contract;
- A separate instrument with the same terms would meet the definition of a derivative; and
- The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives which meet the above separation criteria (such as the conversion option in Preferred Shares) are separately accounted for at fair value, with changes in fair value recognized in the consolidated statements of profit or loss unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

2.17 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statements of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as finance costs.

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

APPENDIX I

ACCOUNTANT'S REPORT

2.19 Current and deferred income tax

The income tax expense for the year comprises current and deferred tax. Tax is recognized in the consolidated statements of profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet dates in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) *Deferred income tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

2.20 Employee benefits

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

(a) *Pension obligations*

The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Defined benefit plans typically define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the consolidated balance sheets in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of each reporting period. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method.

APPENDIX I

ACCOUNTANT'S REPORT

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation.

Past-service costs are recognized immediately in consolidated statements of profit or loss. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (i) when the Group can no longer withdraw the offer of those benefits; and (ii) when the entity recognizes costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(c) Profit-sharing and bonus plans

The Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholder after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(d) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

2.21 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled share-based compensation plans under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognized general and administrative expenses in the consolidated statements of profit or loss with a corresponding increase in the reserve under equity.

The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

APPENDIX I

ACCOUNTANT'S REPORT

- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the estimate of the number of these share options that are expected to become vested is revised based on the non-market performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated statements of profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated statements of profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

(b) Share-based payment transactions among Group entities

The grant of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.22 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate the expenditures expected to be required to settle the present obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to passage of time is recognized as interest expense.

2.23 Revenue recognition

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.

The Group bases its 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

The Group manufactures and sells 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.

APPENDIX I

ACCOUNTANT’S REPORT

(i) *Distributor sales*

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

(ii) *Direct sales*

Direct sales represents 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.

2.24 Interest income

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.25 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized within “other income – net” in the consolidated statements of profit or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to property, plant and equipment are recognized as deferred income in consolidated statements of profit or loss on a systematic basis over the useful life of the asset.

2.26 Leases

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

APPENDIX I

ACCOUNTANT'S REPORT

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing, and makes adjustments specific to the lease, e.g. term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2.27 Research and development costs

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.

2.28 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the consolidated financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

Dividend proposed or declared after the reporting period but before the financial statements are authorized for issue, are disclosed as a non-adjusting event and are not recognized as liability at the end of the reporting period.

APPENDIX I

ACCOUNTANT’S REPORT

2.29 Financial guarantee contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the expected credit loss model under HKFRS 9 “Financial Instruments” and
- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principles of HKFRS 15 “Revenue from Contracts with Customers”.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

2.30 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the historical financial information, if any. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group’s financial performance.

(a) *Market risk*

(i) *Foreign exchange risk*

The Group operates internationally and is 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.

Management manages its foreign exchange risks by performing regular review and monitoring its foreign exchange exposure. Management has also set up a policy to require group companies to manage their foreign exchange risk against their functional currency.

The table below summarizes the changes in the Group’s profit or loss in response to reasonably possible changes in the foreign exchange rates to which the Group has 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.

APPENDIX I

ACCOUNTANT’S REPORT

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 US\$’000	Hypothetical appreciation/ (depreciation) in foreign exchange rate	(Negative)/ profit effect on profit or loss US\$’000	Hypothetical appreciation/ (depreciation) in foreign exchange rate	(Negative)/ profit effect on profit or loss US\$’000	Hypothetical appreciation/ (depreciation) in foreign exchange rate	(Negative)/ profit effect on profit or loss 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)

For HK\$, since it is pegged to the US\$, the directors consider that the Group does not have any material foreign exchange exposure arising from HK\$.

(ii) Cash flow and fair value interest rate risk

The Group’s interest rate risk arises from bank borrowings, loans from related companies and lease liabilities. Bank borrowings obtained at variable rates expose the Group to cash flow interest rate risk.

Loans from related companies and lease liabilities were obtained at fixed rates, therefore, the directors are of the opinion that the 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 the Group’s profit or loss for the year would have been approximately US\$321,000 and US\$333,000 lower or higher, respectively.

Bank deposits at variable rates expose the Group to cash flow interest rate risk. The Group manages its interest rate risk by performing regular reviews and continually monitoring its interest rate exposures. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

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

(b) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The credit risk of the Group’s financial assets, which mainly comprise cash and bank deposits, trade receivables, deposits and other receivables and amounts due from joint ventures and amounts due from related companies with a maximum exposure equal to the carrying amounts of these instruments.

Credit risk is managed on a group basis, except for credit risk relating to trade receivable balances which are managed by each local entity. For each trade receivables, each local entity is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered.

(i) Credit risk of cash and bank deposits

The credit risk arises from cash at banks and deposits with banks are monitored closely by management of the Group. The majority of the Group’s bank balances and deposits are placed in banks and financial institutions which are independently rated with high credit ratings assigned by international credit-rating agencies. Management does not expect any losses from non-performance by these banks and financial institutions as they have no recent history of default.

APPENDIX I

ACCOUNTANT’S REPORT

(ii) *Credit risk of trade receivables*

For external receivables, the Group has policies in place to assess the credit worthiness of customers to ensure that sales of products are made to customers with an appropriate credit history. Besides, management of the Group monitors its credit risk on an ongoing basis by reviewing the debtors’ ageing to minimize its exposure to credit risk. As at December 31, 2019, 2020 and 2021 and June 30, 2022, the Group has concentration of credit risk given that the largest customer accounted for 12%, 7%, 2% and 9% respectively, of the total trade receivables. The extent of credit risk relating to the Group’s trade receivables is disclosed in Note 24.

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure expected credit losses, the Group categorises its trade receivables based on customer accounts and shared credit risk characteristics.

All customers of the Group are assessed collectively using a provision matrix. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group also considered the forward-looking information on macroeconomic factors including gross domestic product.

For trade receivables relating to accounts in which there are objective evidence that the debtor faces significant financial difficulties or enter liquidation, they are assessed individually for impairment allowance.

The loss allowance provision for trade receivables from third parties as at December 31, 2019, 2020 and 2021 and June 30, 2022 are as follows:

At December 31, 2019	Current	Past due by 1 to 90 days	Past due by 91 to 180 days	Past due by over 180 days	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Gross carrying amount	27,402	3,899	1,845	2,329	35,475
Expected loss rate	0.07%	9.08%	45.42%	71.02%	
Loss allowance	(20)	(354)	(838)	(1,654)	(2,866)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At December 31, 2020	Current	Past due by 1 to 90 days	Past due by 91 to 180 days	Past due by over 180 days	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Gross carrying amount	24,189	1,837	248	2,132	28,406
Expected loss rate	0.06%	1.91%	16.94%	93.76%	
Loss allowance	(14)	(35)	(42)	(1,999)	(2,090)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At December 31, 2021	Current	Past due by 1 to 90 days	Past due by 91 to 180 days	Past due by over 180 days	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Gross carrying amount	25,478	942	273	1,698	28,391
Expected loss rate	0.04%	2.23%	3.66%	91.05%	
Loss allowance	(10)	(21)	(10)	(1,546)	(1,587)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

APPENDIX I

ACCOUNTANT’S REPORT

At June 30, 2022	Current US\$'000	Past due by 1 to 90 days US\$'000	Past due by 91 to 180 days US\$'000	Past due by over 180 days US\$'000	Total US\$'000
Gross carrying amount	26,261	2,942	522	1,833	31,558
Expected loss rate	0.04%	1.80%	31.8%	88.8%	
Loss allowance	(11)	(53)	(166)	(1,628)	(1,858)

(iii) Credit risk of other financial assets at amortized cost

The directors of the Group consider the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis during the financial year. To assess whether there is a significant increase in credit risk the Group compares risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial economic conditions that are expected to cause a significant change to the third party’s ability to meet its obligations;
- actual or expected significant changes in the operating results of the third party; and
- significant changes in the expected performance and behaviour of the third party, including changes in the payment status of the third party.

A default on a financial asset is when the counterparty fails to make contractual payments/repayable demanded.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. Where receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

The Group reviews regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts. Over the term of the financial assets, the Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of debtors, and adjusts for forward looking macroeconomic data.

The credit risk of the Group’s other financial assets at amortized cost, which comprises deposits and other receivables, amounts due from joint ventures and amounts due from related companies arises from default of the counter party, with a maximum exposure equal to the carrying amount of the instrument. The credit quality has been assessed with reference to historical information and forward-looking information about the counterparties default rates and financial position of the counterparties. Given the track record of repayment in full, the directors of the Company are of the opinion that the risk of default by these counterparties is not significant and does not expect any losses from non-performance by the counterparties. Therefore, expected credit loss rate of the deposits and other receivables is assessed to be insignificant and no provision was made as at December 31, 2019, 2020 and 2021 and June 30, 2022.

The Group’s maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of contingent liabilities in relation to financial guarantees provided by the Group is disclosed in Note 37.

APPENDIX I

ACCOUNTANT’S REPORT

(c) *Liquidity risk*

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group finance. Group finance monitors rolling forecasts of the Group’s liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group’s debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

The table below analyzes the Group’s financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet dates to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 year or on demand	Between 1 and 2 years	Between 2 and 5 years
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
At December 31, 2019			
Trade payables	3,506	–	–
Accruals and other payables	10,897	–	–
Short-term bank borrowings	38,462	–	–
Interest payable on short-term bank borrowings	1,353	–	–
Lease liabilities	1,470	1,051	234
Interest payable on lease liabilities	75	39	2
Amount due to a related company	88,193	99,790	–
	<u>143,956</u>	<u>100,880</u>	<u>236</u>
At December 31, 2020			
Trade payables	1,364	–	–
Accruals and other payables	11,081	–	–
Short-term bank borrowings	39,898	–	–
Interest payable on short-term bank borrowings	541	–	–
Lease liabilities	922	496	61
Interest payable on lease liabilities	32	17	3
Loans from related companies	–	10,186	–
Interest payable on loans from related companies	306	–	–
	<u>54,144</u>	<u>10,699</u>	<u>64</u>
At December 31, 2021			
Trade payables	2,174	–	–
Accruals and other payables	9,877	–	–
Lease liabilities	1,483	1,327	1,172
Interest payable on lease liabilities	92	49	14
	<u>13,626</u>	<u>1,376</u>	<u>1,186</u>

APPENDIX I

ACCOUNTANT’S REPORT

	Within 1 year or on demand	Between 1 and 2 years	Between 2 and 5 years
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
At June 30, 2022			
Trade payables	3,875	–	–
Accruals and other payables	11,391	–	–
Amount due to a joint venture	129	–	–
Lease liabilities	1,396	1,315	1,342
Interest payable on lease liabilities	87	50	28
	<u>16,878</u>	<u>1,365</u>	<u>1,370</u>

3.2 Capital risk management

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the debt to asset ratio. The capital structure of the Group consists of borrowings and shareholders’ equity. Capital is managed so as to maximize the return to shareholders while maintaining a capital base to allow the Group to operate effectively in the marketplace and sustain future development of the business. This ratio is calculated as total liabilities divided by total assets.

The Group’s total liabilities and total assets positions and debt to asset ratio as follows:

	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
Total liabilities (US\$’000)	247,983	68,750	85,415	26,054
Total assets (US\$’000)	95,692	103,646	268,527	278,780
Debt to asset ratio	<u>259.1%</u>	<u>66.3%</u>	<u>31.8%</u>	<u>9.3%</u>

The debt to asset ratio decreased from 259.1% as at December 31, 2019 to 66.3% as at December 31, 2020 as a result of additional contribution from shareholders. The ratio was decreased to 31.8% as at December 31, 2021 mainly due to the increase in total assets in relation to the cash proceeds received upon issuance of convertible redeemable preferred shares. The ratio was decreased to 9.3% as at June 30, 2022 mainly due to the capitalization of convertible redeemable preferred shares.

3.3 Fair value estimation

The table below analyzes the Group’s financial instruments carried at fair value as at December 31, 2019, 2020 and 2021 and June 30, 2022 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- **Level 1:** The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. These instruments are included in level 1.
- **Level 2:** The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- **Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

APPENDIX I

ACCOUNTANT’S REPORT

The following table presents the Group’s assets and liabilities that are measured at fair value as at December 31, 2019, 2020 and 2021 and June 30, 2022:

	Level 1 <i>US\$'000</i>	Level 2 <i>US\$'000</i>	Level 3 <i>US\$'000</i>	Total <i>US\$'000</i>
As at December 31, 2019				
Financial asset				
Financial asset at fair value through profit or loss				
– Life insurance policies	–	–	1,829	1,829
	<u>–</u>	<u>–</u>	<u>1,829</u>	<u>1,829</u>
Financial liability				
Retirement benefit obligations	–	–	2,227	2,227
	<u>–</u>	<u>–</u>	<u>2,227</u>	<u>2,227</u>
	Level 1 <i>US\$'000</i>	Level 2 <i>US\$'000</i>	Level 3 <i>US\$'000</i>	Total <i>US\$'000</i>
As at December 31, 2020				
Financial asset				
Financial asset at fair value through profit or loss				
– Life insurance policies	–	–	2,048	2,048
	<u>–</u>	<u>–</u>	<u>2,048</u>	<u>2,048</u>
Financial liability				
Retirement benefit obligations	–	–	2,541	2,541
	<u>–</u>	<u>–</u>	<u>2,541</u>	<u>2,541</u>
	Level 1 <i>US\$'000</i>	Level 2 <i>US\$'000</i>	Level 3 <i>US\$'000</i>	Total <i>US\$'000</i>
As at December 31, 2021				
Financial asset				
Financial asset at fair value through profit or loss				
– Life insurance policies	–	–	2,041	2,041
	<u>–</u>	<u>–</u>	<u>2,041</u>	<u>2,041</u>
Financial liability				
Retirement benefit obligations	–	–	2,755	2,755
	<u>–</u>	<u>–</u>	<u>2,755</u>	<u>2,755</u>

APPENDIX I

ACCOUNTANT’S REPORT

	Level 1 <i>US\$'000</i>	Level 2 <i>US\$'000</i>	Level 3 <i>US\$'000</i>	Total <i>US\$'000</i>
As at June 30, 2022				
Financial assets				
Financial assets at fair value through profit or loss				
– Life insurance policies	–	–	1,793	1,793
– The Commodity Linked Fixed Rate Note	–	18,734	–	18,734
	<u>–</u>	<u>18,734</u>	<u>1,793</u>	<u>20,527</u>
	<u>–</u>	<u>18,734</u>	<u>1,793</u>	<u>20,527</u>
Financial liability				
Retirement benefit obligations	–	–	2,208	2,208
	<u>–</u>	<u>–</u>	<u>2,208</u>	<u>2,208</u>

The following table presented the changes in level item including financial assets at fair value through profit or loss during the Track Record Period.

The Group

	Financial assets at fair value through profit or loss			
	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Beginning of year/period	1,745	1,829	2,048	2,041
Addition	341	390	407	20,180
Disposal	(333)	(194)	(166)	(16)
Fair value change	60	(76)	(29)	(1,347)
Currency translation differences	16	99	(219)	(331)
	<u>1,829</u>	<u>2,048</u>	<u>2,041</u>	<u>20,527</u>
At end of year/period	<u>1,829</u>	<u>2,048</u>	<u>2,041</u>	<u>20,527</u>

The Company

	The Commodity Linked Fixed Rate Note	
	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>
Beginning of period	–	–
Addition	–	20,000
Fair value change	–	(1,266)
	<u>–</u>	<u>(1,266)</u>
End of period	<u>–</u>	<u>18,734</u>

The change in level 3 instruments of convertible redeemable preferred shares and retirement benefit obligations are presented in Note 29 and 30 respectively.

There were no transfers between levels during the year/period.

APPENDIX I

ACCOUNTANT’S REPORT

(a) Financial instrument in Level 2

The fair value of the Commodity Linked Fixed Rate Note that is not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value of an instrument are observable, the instrument is included in level 2. Level 2 instrument of the Group’s asset included the Commodity Linked Fixed Rate Note measured at fair value through profit or loss.

(b) Financial instrument in Level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Life insurance policies under the Group’s financial assets at fair value through profit or loss were included in level 3. The fair value of the financial assets at fair value through profit or loss is determined based on investment portion of the cash surrender value which is not an observable input.

Life insurance policies

A subsidiary in Japan entered into life insurance policies with an insurance company to insure the employees of the subsidiary and the subsidiary is the holder and beneficiary of these policies.

The subsidiary is required to pay monthly insurance premiums determined by the insurance company. The subsidiary may request a surrender to the policy at any time, such as upon employee resignation or retirement, and receive cash based on the cash surrender value of the policies at the date of surrender.

An independent valuation of the Group’s financial assets at fair value through profit or loss was performed by a qualified valuer to determine the fair value of the life insurance policies as at December 31, 2019, 2020 and 2021 and June 30, 2022. These valuation results are then reported to the senior management of the Group for discussions in relation to the valuation processes and the reasonableness of valuation results. The fair value gains or losses are included in “other gains/(losses) – net” for the Track Record Period.

The valuation was determined using discounted cash flow (“DCF”) projections based on significant unobservable inputs. These inputs include:

Discount rate	Reflecting current market assessments of the uncertainty in the amount and timing of cash flows
Mortality rate	Based on the life table revised in 2019, 2020, 2021 and 2022 published by the Ministry of Health, Labor and Welfare of Japan
Employee turnover rate	Based on a three year historical rate of the subsidiary in Japan
Surrender rate	Based on figures published by the insurance company

There were no changes to the valuation techniques during the Track Record Period.

Description	Unobservable inputs	Range of unobservable inputs at	Range of unobservable inputs at	Range of unobservable inputs at	Range of unobservable inputs at
		December 31 2019	December 31 2020	December 31, 2021	June 30, 2022
Life insurance policies	Discount rate	0.1% – 0.4%	0.1% – 0.6%	0.1% – 0.8%	0.1% – 1.3%

APPENDIX I

ACCOUNTANT’S REPORT

The sensitivity of the life insurance policies to changes in the weighted principal assumptions is:

	Impact on financial assets at fair value through profit or loss		
	Change in assumption	Increase in assumption	Decrease in assumption
At December 31, 2019			
Discount rate	0.5%	Decrease by 7.77%	Increase by 8.54%
At December 31, 2020			
Discount rate	0.5%	Decrease by 7.93%	Increase by 8.74%
At December 31, 2021			
Discount rate	0.5%	Decrease by 5.9%	Increase by 6.4%
At June 30, 2022			
Discount rate	0.5%	Decrease by 5.4%	Increase by 5.8%

The sensitivity of other unobservable inputs are not expected to have significant impact on the fair value of financial assets at fair value through profit or loss as at December 31, 2019, 2020 and 2021 and June 30, 2022.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group’s past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

(b) Provision for inventories

The Group’s 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. The 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.

(c) Useful lives of property, plant and equipment and intangible assets

The Group’s management determines the estimated useful lives and related depreciation charges for the Group’s property, plant and equipment with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation charges where useful lives are different to that of previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation expense in future periods.

The Group’s intangible assets included capitalized development costs and customer relationship. Management determines the estimated useful lives and related amortization charges for the capitalized development costs with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. For customer relationship arising from business combination, management determines the estimated useful life and related amortization charges based on historical attrition rates of customers. Management will revise the

APPENDIX I

ACCOUNTANT'S REPORT

amortization charges where useful lives are different to that of previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual useful lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore amortization expense in future periods.

(d) Impairment of property, plant and equipment

Property, plant and equipment are reviewed for possible impairments whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts are determined based on value-in-use calculation. The value-in-use calculation involves estimating the future cash inflows and outflows to be derived from continuing use of the asset and applying the appropriate discount rate to those future cash flows. The estimation of future cash flows and selection of discount rate require the use of judgments and estimates. Management believes that any reasonably foreseeable change in any of the above key elements in the value-in-use calculation would not result in material additional impairment charges.

(e) Research and development costs

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.

Significant judgement is required in determining the capitalization of development costs. Development costs that are recognized as assets are 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.

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. The 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.

(f) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

(g) Fair value of financial assets at fair value through profit or loss

The Group's subsidiary in Japan entered into life insurance policies with an insurance company to insure the employees of a subsidiary. These life insurance policies allow the subsidiary to request a surrender to the policy at any time, such as upon employee resignation or retirement, and receive cashback based on the cash surrender value of the policies at the date of surrender.

The fair value of these insurance contracts is determined by using valuation techniques. The Group uses its judgment to select the valuation method and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Details of the assumptions and judgments used by the Group to determine the fair value of financial assets are disclosed in Note 3.3.

APPENDIX I

ACCOUNTANT’S REPORT

(h) Valuation of convertible redeemable preferred shares

The Preferred Shares issued by the Group are not traded in an active market and the respective fair value is determined by using valuation techniques. The Group has used the discounted cash flow method to determine the underlying equity value of the Group and adopted equity allocation model to determine the fair value of the Preferred Shares. Key assumptions, such as discount rate, risk-free interest rate, lack of marketability discount (“DLOM”) and volatility are disclosed in Note 29. For Preferred Shares carried at amortized cost, management judgement and estimates in relation to the timing and manner of their settlement are also involved in determining the carrying amount of such preferred shares.

5 REVENUE AND SEGMENT INFORMATION

The CODM considers the business from a product perspective which is manufacturing, trading, sales and marketing of medical devices/instruments used for the treatment of coronary artery diseases. The CODM regularly reviews the financial information of the [REDACTED] which is the same as the Historical Financial Information of the Group, for the purposes of allocating resources and assessing its performance, so only one operating segment of the Group and, no separate segmental analysis is presented in these consolidated financial statements.

The amounts provided to the CODM with respect to total assets and total liabilities are measured in a manner consistent with that in the consolidated balance sheets.

The revenue recognized during the Track Record Period are as follows:

	Year ended December 31,			Six months ended June 30,	
	2019 US\$'000	2020 US\$'000	2021 US\$'000	2021 US\$'000	2022 US\$'000
				(Unaudited)	
Sales of goods – at point in time	96,342	88,472	116,462	57,339	68,851

Geographical information

The Group is organized on a worldwide basis. The analysis of revenue by geographical area is as follows:

Year ended	Europe, Middle East & Africa (“EMEA”)	Japan	Asia Pacific region, except Japan and the PRC (“APAC”)	The PRC	United States	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
December 31, 2019						
Revenue	62,739	29,357	63,984	44,235	4,326	204,641
Less: inter-segment revenue	(35,318)	–	(37,015)	(35,966)	–	(108,299)
Revenue from external customers	27,421	29,357	26,969	8,269	4,326	96,342

APPENDIX I

ACCOUNTANT’S REPORT

	Europe, Middle East & Africa (“EMEA”) US\$’000	Japan US\$’000	Asia Pacific region, except Japan and the PRC (“APAC”) US\$’000	The PRC US\$’000	United States US\$’000	Total US\$’000
Year ended						
December 31, 2020						
Revenue	64,586	28,164	63,023	38,910	7,288	201,971
Less: inter-segment revenue	(40,158)	–	(39,478)	(33,863)	–	(113,499)
Revenue from external customers	<u>24,428</u>	<u>28,164</u>	<u>23,545</u>	<u>5,047</u>	<u>7,288</u>	<u>88,472</u>
Year ended						
December 31, 2021						
Revenue	78,936	29,807	79,027	56,744	7,468	251,982
Less: inter-segment revenue	(44,814)	–	(51,039)	(39,667)	–	(135,520)
Revenue from external customers	<u>34,122</u>	<u>29,807</u>	<u>27,988</u>	<u>17,077</u>	<u>7,468</u>	<u>116,462</u>
Six months ended						
June 30, 2022						
Revenue	35,115	17,134	41,368	31,341	7,012	131,970
Less: inter-segment revenue	(18,548)	–	(26,549)	(18,022)	–	(63,119)
Revenue from external customers	<u>16,567</u>	<u>17,134</u>	<u>14,819</u>	<u>13,319</u>	<u>7,012</u>	<u>68,851</u>
(Unaudited)						
Six months ended						
June 30, 2021						
Revenue	38,989	14,748	36,507	25,995	4,129	120,368
Less: inter-segment revenue	(21,088)	–	(22,886)	(19,055)	–	(63,029)
Revenue from external customers	<u>17,901</u>	<u>14,748</u>	<u>13,621</u>	<u>6,940</u>	<u>4,129</u>	<u>57,339</u>

APPENDIX I

ACCOUNTANT’S REPORT

The non-current assets information below is based on the location of assets other than financial instruments and deferred income tax assets.

	As at December 31,			As at
	2019	2020	2021	June 30,
	US\$'000	US\$'000	US\$'000	2022
				US\$'000
EMEA	915	3,510	4,286	3,638
Japan	1,174	2,103	1,594	1,212
APAC	3,332	6,884	10,417	10,726
The PRC	9,957	9,011	8,906	9,035
United States	869	2,029	2,541	2,604
	<u>16,247</u>	<u>23,537</u>	<u>27,744</u>	<u>27,215</u>

Information about major customers

The revenue from external parties is derived from numerous external customers and the revenue reported to the CODM is measured in a manner consistent with that in the Historical Financial Information.

No external customers of the Group individually accounted for over 10% of the Group’s revenue during the Track Record Period.

6 OTHER INCOME – NET

	Year ended December 31,			Six months ended	
	2019	2020	2021	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Government grants (Note)	1,066	2,333	1,166	670	320
Others	<u>96</u>	<u>73</u>	<u>219</u>	<u>4</u>	<u>73</u>
	<u>1,162</u>	<u>2,406</u>	<u>1,385</u>	<u>674</u>	<u>393</u>

Note: Government grants mainly comprise subsidies received from the Government of the Hong Kong Special Administrative Region and various local governments in the PRC. There were no unfulfilled conditions and other contingencies attached to the receipts of those grants.

APPENDIX I

ACCOUNTANT’S REPORT

7 OTHER GAINS/(LOSSES) – NET

	Year ended December 31,			Six months ended	
	2019	2020	2021	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
	(Unaudited)				
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 (Note 18)	(41)	(37)	(22)	(9)	(5)
Unrealized gains/(losses) of fair value change in financial asset at fair value through profit or loss (Note 18)	60	(76)	(29)	(33)	(1,347)
Gain on lease modification	2	–	–	–	2
Gain on disposals of subsidiaries	–	10	–	–	–
Others	–	(6)	17	6	4
	338	904	(1,020)	(513)	(2,854)
	338	904	(1,020)	(513)	(2,854)

8 EXPENSES BY NATURE

	Year ended December 31,			Six months ended	
	2019	2020	2021	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
	(Unaudited)				
Cost of inventories recognized as expense (included write-down of inventories to net realizable value)	16,347	16,298	17,896	8,416	11,680
Employee benefit expenses (Note 9)	39,843	36,803	45,007	22,103	24,332
Depreciation of property, plant and equipment	2,388	2,474	2,255	1,180	953
Depreciation of right-of-use assets	1,585	1,441	1,288	627	755
Amortization of intangible assets	3	176	476	227	254
Short-term lease expense in respect of office premises	951	946	1,141	586	525
Royalty expenses	2,759	2,440	2,824	1,575	1,706
Auditors’ remuneration	457	460	352	291	82
Marketing and advertising expenses	4,738	2,654	2,910	1,002	1,971
Legal and professional fees	2,511	3,277	2,146	1,386	1,749

APPENDIX I

ACCOUNTANT’S REPORT

	Year ended December 31,			Six months ended	
	2019	2020	2021	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				<i>(Unaudited)</i>	
(Reversal of clinical trial accruals)/clinical trial expenses	(2,599)	1,174	643	306	49
Travel and entertainment expenses	5,363	2,170	1,951	803	1,098
Testing material expenses	2,002	2,053	1,848	997	1,124
Commission expenses	1,795	1,251	1,352	686	669
Delivery and warehouse charge	1,738	1,874	2,579	1,189	1,377
Transportation expenses	694	509	571	287	278
Telecommunication expenses	390	320	297	158	138
Insurance expenses	565	617	581	344	381
[REDACTED]	–	–	[REDACTED]	[REDACTED]	[REDACTED]
Other expenses	6,916	7,082	6,731	2,803	3,350
	88,446	84,019	97,496	45,458	55,070

9 EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS’ REMUNERATION)

	Year ended December 31,			Six months ended	
	2019	2020	2021	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				<i>(Unaudited)</i>	
Salaries, wages and allowances	34,913	31,926	36,270	17,597	19,998
Pension costs – defined contribution plans	2,845	3,871	5,006	2,774	2,525
Pension costs – defined benefit plans (<i>Note 30</i>)	346	164	337	172	153
Share options granted to directors and employees	–	–	1,339	670	368
Other staff benefits	1,739	842	2,055	890	1,288
	39,843	36,803	45,007	22,103	24,332

(a) Pension costs – defined contribution plans

There were no forfeited contributions (by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions) to offset existing contributions under the defined contributions schemes.

APPENDIX I

ACCOUNTANT’S REPORT

(b) Directors’ emoluments

The remuneration of individual director of the [REDACTED] paid or payable by the Group for the Track Record Period are set out below:

For the year ended December 31, 2019

Name of directors	Fees <i>US\$’000</i>	Salaries <i>US\$’000</i>	Discretionary bonuses <i>US\$’000</i>	Allowance and benefits in kind <i>US\$’000</i>	Employer’s contribution to a retirement benefit scheme <i>US\$’000</i>	Other emoluments paid or receivable in respect of director’s other services in connection with the management of the affairs of the [REDACTED] <i>US\$’000</i>	Total <i>US\$’000</i>
Executive directors							
Mr. David Chien	-	308	26	-	2	-	336
Ms. Lau Kwai							
Ching Denise	-	277	23	-	2	-	302
Mr. Chen Wing							
Shing	-	252	53	6	2	-	313
Mr. Chow Ching							
Chung John	-	216	-	9	16	-	241
	-	1,053	102	15	22	-	1,192

For the year ended December 31, 2020

Name of directors	Fees <i>US\$’000</i>	Salaries <i>US\$’000</i>	Discretionary bonuses <i>US\$’000</i>	Allowance and benefits in kind <i>US\$’000</i>	Employer’s contribution to a retirement benefit scheme <i>US\$’000</i>	Other emoluments paid or receivable in respect of director’s other services in connection with the management of the affairs of the [REDACTED] <i>US\$’000</i>	Total <i>US\$’000</i>
Executive directors							
Mr. David Chien	-	320	13	-	2	-	335
Ms. Lau Kwai							
Ching Denise	-	288	12	-	2	-	302
Mr. Chen Wing							
Shing	-	293	12	15	2	-	322
Mr. Chow Ching							
Chung John	-	224	-	9	16	-	249
	-	1,125	37	24	22	-	1,208

APPENDIX I

ACCOUNTANT’S REPORT

For the year ended December 31, 2021

Name of directors	Fees <i>US\$'000</i>	Salaries <i>US\$'000</i>	Discretionary bonuses <i>US\$'000</i>	Allowance and benefits in kind <i>US\$'000</i>	Employer’s contribution to a retirement benefit scheme <i>US\$'000</i>	Other emoluments paid or receivable in respect of director’s other services in connection with the management of the affairs of the [REDACTED]	Total <i>US\$'000</i>
						<i>US\$'000</i>	
Executive directors							
Mr. David Chien	-	326	27	-	2	-	355
Ms. Lau Kwai Ching Denise	-	294	24	-	2	-	320
Mr. Chen Wing Shing	-	299	149	17	2	29	496
Mr. Chow Ching Chung John	-	229	-	9	17	15	270
Mr. Zhou Yi	-	-	-	-	-	-	-
	-	1,148	200	26	23	44	1,441

For the six months ended June 30, 2022

Name of directors	Fees <i>US\$'000</i>	Salaries <i>US\$'000</i>	Discretionary bonuses <i>US\$'000</i>	Allowance and benefits in kind <i>US\$'000</i>	Employer’s contribution to a retirement benefit scheme <i>US\$'000</i>	Other emoluments paid or receivable in respect of director’s other services in connection with the management of the affairs of the [REDACTED]	Total <i>US\$'000</i>
						<i>US\$'000</i>	
Executive directors							
Mr. David Chien	-	385	32	-	1	-	418
Ms. Lau Kwai Ching Denise	-	231	19	-	1	-	251
Mr. Chen Wing Shing	-	177	15	11	1	15	219
Mr. Chow Ching Chung John	-	117	-	3	8	7	135
Mr. Zhou Yi	-	-	-	-	-	-	-
	-	910	66	14	11	22	1,023

APPENDIX I

ACCOUNTANT’S REPORT

For the six months ended June 30, 2021

Name of directors	Fees US\$'000	Salaries US\$'000	Discretionary bonuses US\$'000	Allowance and benefits in kind US\$'000	Employer’s contribution to a retirement benefit scheme US\$'000	Other emoluments paid or receivable in respect of director’s other services in connection with the management of the affairs of the [REDACTED]	Total US\$'000
						US\$'000	
(Unaudited)							
Executive directors							
Mr. David Chien	-	163	14	-	1	-	178
Ms. Lau Kwai Ching Denise	-	147	12	-	1	-	160
Mr. Chen Wing Shing	-	149	12	9	1	16	187
Mr. Chow Ching Chung John	-	114	-	4	8	8	134
	<u>-</u>	<u>573</u>	<u>38</u>	<u>13</u>	<u>11</u>	<u>24</u>	<u>659</u>

The remuneration shown above represented remuneration received from the Group by these directors in their capacity as employees to the [REDACTED] and no directors waived any emolument during each of the years ended December 31, 2019, 2020 and 2021 and six months ended June 30, 2021 and 2022.

No director fees were paid to these directors in their capacity as directors of the Company or the [REDACTED] and no emoluments were paid by the Company or the [REDACTED] to the directors as an inducement to join the Company or the Operating Companies, or as compensation for loss of office during each of the years ended December 31, 2019, 2020 and 2021 and six months ended June 30, 2021 and 2022.

Mr. David Chien, Ms. Lau Kwai Ching Denise, Mr. Chen Wing Shing and Mr. Chow Ching Chung, John were appointed as the Company’s executive director on July 22, 2021. Mr. Zhou Yi was appointed as the Company’s director on September 28, 2021 and redesignated as the Company’s non-executive director on [date]. Mr. Chan Yip Keung, Mr. Lau Ka Keung and Ms. Tam Lai Fan, Gloria were appointed as the Company’s independent non-executive directors on [date]. During the Track Record Period, the non-executive directors and independent non-executive directors had not yet been appointed and did not receive any remuneration in their capacity as the Company’s directors.

(c) Directors’ retirement and termination benefits

None of the directors received any other retirement benefits or termination benefits during the Track Record Period.

(d) Consideration provided to third parties for making available directors’ services

During the Track Record Period, no consideration was provided to or receivable by third parties for making available directors’ services.

APPENDIX I

ACCOUNTANT’S REPORT

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There were no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the Track Record Period.

(f) Directors’ material interests in transactions, arrangements or contracts

Save as disclosed in Note 39, no significant transactions, arrangements and contracts in relation to the Group’s business to which the Group was a party and in which a director of the Group had a material interest, whether directly or indirectly, subsisted at the end of each reporting period or at any time during the Track Record Period.

(g) Five highest paid individuals

For each of the years ended December 31, 2019, 2020 and 2021 and six months ended June 30, 2021 and 2022, the five individuals whose emoluments were the highest in the Group include nil, two, two, two and three directors, whose emoluments were reflected in Note 9(a). The emoluments paid to the remaining five, three, three, three and two individuals, respectively, are as follows:

	Year ended December 31,			Six months ended	
	2019	2020	2021	June 30,	2022
	US\$’000	US\$’000	US\$’000	2021	2022
				US\$’000	US\$’000
				<i>(Unaudited)</i>	
Salaries, wages and allowances	2,422	1,215	1,353	750	583
Share options granted	–	–	77	43	26
Pension costs – defined contribution plans	15	16	21	12	11
Pension costs – defined benefit plans	11	11	11	5	5
Other long-term benefits	17	18	20	10	9
	<u>2,465</u>	<u>1,260</u>	<u>1,482</u>	<u>820</u>	<u>634</u>

The emoluments of above individuals are within the following bands:

	Year ended December 31,			Six months ended	
	2019	2020	2021	June 30,	2022
				2021	2022
				<i>(Unaudited)</i>	
HK\$1,000,001 – HK\$1,500,000 (equivalent to US\$128,205 – US\$192,307)	–	–	–	1	–
HK\$2,000,001 – HK\$2,500,000 (equivalent to US\$256,411 – US\$320,513)	–	–	–	1	1
HK\$2,500,001 – HK\$3,000,000 (equivalent to US\$320,514 – US\$384,615)	2	1	1	1	1
HK\$3,000,001 – HK\$3,500,000 (equivalent to US\$384,616 – US\$448,718)	1	1	–	–	–

APPENDIX I

ACCOUNTANT’S REPORT

	Year ended December 31,			Six months ended	
	2019	2020	2021	June 30, 2021	2022
				<i>(Unaudited)</i>	
HK\$3,500,001 – HK\$4,000,000 (equivalent to US\$448,719 – US\$512,821)	–	–	–	–	–
HK\$4,000,001 – HK\$4,500,000 (equivalent to US\$512,822 – US\$576,923)	–	1	1	–	–
HK\$4,500,001 – HK\$5,000,000 (equivalent to US\$576,924 – US\$641,026)	1	–	1	–	–
HK\$5,000,001 – HK\$5,500,000 (equivalent to US\$641,027 – US\$705,128)	–	–	–	–	–
HK\$5,500,001 – HK\$6,000,000 (equivalent to US\$705,129 – US\$769,231)	1	–	–	–	–
	<u>1</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>5</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>2</u>

No incentive payment for joining the Group or compensation for loss of office was paid or payable to any of the five highest paid individuals during the Track Record Period.

10 FINANCE COSTS – NET

	Year ended December 31,			Six months ended	
	2019	2020	2021	June 30, 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 deposits	20	11	12	6	249
– Interest income from a loan to an employee	1	1	–	–	–
	<u>21</u>	<u>12</u>	<u>12</u>	<u>6</u>	<u>249</u>
Finance costs:					
– Interest expense on bank borrowings	(381)	(1,258)	(525)	(403)	(11)
– Interest expense on lease liabilities	(120)	(77)	(76)	(40)	(57)
– Interest expense to related companies	–	(67)	(151)	(128)	–
– Unwinding of interests on convertible redeemable preferred shares	–	–	(4,853)	(476)	(1,336)
– Others	(2)	(3)	(2)	(1)	(3)
	<u>(503)</u>	<u>(1,405)</u>	<u>(5,607)</u>	<u>(1,048)</u>	<u>(1,407)</u>
Finance costs – net	<u>(482)</u>	<u>(1,393)</u>	<u>(5,595)</u>	<u>(1,042)</u>	<u>(1,158)</u>

APPENDIX I

ACCOUNTANT’S REPORT

11 INCOME TAX EXPENSE

	Year ended December 31,			Six months ended	
	2019	2020	2021	June 30,	2022
	US\$'000	US\$'000	US\$'000	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)
	<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 (Note 17)	790	(565)	668	716	736
Recognition of previously unrecognized deferred income tax assets (Note 17)	(773)	–	–	–	–
	<u>17</u>	<u>(565)</u>	<u>668</u>	<u>716</u>	<u>736</u>
	<u>549</u>	<u>184</u>	<u>3,126</u>	<u>1,658</u>	<u>1,652</u>

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

(a) Hong Kong profits 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 and 2021 and six months ended June 30, 2021 and 2022 respectively.

(b) PRC corporate income tax

OrbusNeich Medical (Shenzhen) Company Limited (“OrbusNeich 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 further renewed the HNTE certificate on December 11, 2020 with the validity of three years therefrom. According to the CIT Law, the enterprise qualifying the HNTE status is entitled to the 15% reduced CIT rate subject to a record-filing to the in-charge tax bureau. OrbusNeich Shenzhen had completed the record-filing with Shenzhen local tax bureau. As such, the applicable CIT rate is 15%, 15%, 15%, 15% and 15% for the years ended December 31, 2019, 2020 and 2021 and six months ended June 30, 2021 and 2022 respectively.

(c) Japan corporate income tax

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 and 2021 and six months ended June 30, 2021 and 2022 respectively.

(d) The Netherlands corporate income tax

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

APPENDIX I

ACCOUNTANT’S REPORT

The tax on the Group’s profit/(loss) before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	Year ended December 31,			Six months ended	
	2019	2020	2021	June 30,	2022
	US\$’000	US\$’000	US\$’000	US\$’000	US\$’000
	<i>(Unaudited)</i>				
Profit/(loss) before income tax	7,507	7,255	(1,318)	4,979	9,689
Tax calculated at domestic tax rates applicable to profit/(loss) in the respective countries/regions	5,307	513	2,425	949	503
Income not subject to tax	(1,223)	(1,719)	(1,291)	(635)	(498)
Expenses not deductible for tax purposes	1,109	721	1,178	1,133	915
Effect of unrecognized temporary differences	(257)	402	(347)	(93)	370
Effect of unrecognized tax losses	1,717	323	1,763	824	1,226
Recognition of previously unrecognized deferred income tax assets	(773)	–	–	–	–
Utilization of previously unrecognized tax losses	(5,301)	(117)	(504)	(129)	(674)
(Over)/under-provision in prior years/periods	(30)	61	(98)	(391)	(190)
Income tax expense	<u>549</u>	<u>184</u>	<u>3,126</u>	<u>1,658</u>	<u>1,652</u>

12 Dividend

No dividend has been paid or declared by the Company for the Track Record Period.

13 Earnings/(loss) per share

(a) Basic earnings/(loss) per share

The basic earnings/(loss) per share is calculated based on the profit attributable to equity holders of the Company for the years ended December 31, 2019, 2020 and 2021 and six months ended June 30, 2021 and 2022 divided by the weighted average number of shares in issue during the year. The weighted average number of ordinary shares used for such purpose has been retrospectively adjusted for the effect of the issuance of 2,884,499,620 shares of the Company in connection with the Reorganisation completed on September 28, 2021 deemed to have been in issue since January 1, 2019.

	Year ended December 31,			Six months ended	
	2019	2020	2021	June 30,	2022
	<i>(Unaudited)</i>				
Profit/(loss) attributable to owners of the Company (US\$’000)	6,958	7,071	(4,444)	3,321	8,037
Weighted average number of ordinary shares in issue (thousand shares)	<u>2,884,500</u>	<u>2,884,500</u>	<u>2,884,500</u>	<u>2,884,500</u>	<u>2,884,500</u>
Basic earnings/(loss) per share (US\$ cents)	<u>0.24</u>	<u>0.25</u>	<u>(0.15)</u>	<u>0.12</u>	<u>0.28</u>

APPENDIX I

ACCOUNTANT’S REPORT

(b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the years ended December 31, 2019 and 2020 there were no dilutive potential ordinary shares of the Company outstanding.

For the year ended December 31, 2021, the Company had share options (Note 27) and convertible redeemable preferred shares (Note 29) that are potential ordinary shares. As the Company incurred loss for the year ended December 31, 2021, these potential ordinary shares were not included in the calculation of diluted loss per share as their inclusion would be anti-dilutive. Accordingly, the amount of diluted loss per share for the year ended December 31, 2021 were the same as basic loss per share of the year.

For the six months ended June 30, 2021, since the incremental earning per shares arising from convertible redeemable preferred shares is greater than the basic earning per share at the continuing operation, these potential ordinary shares were not included in the calculation of diluted earnings per share as their inclusion would be anti-dilutive. Accordingly, the amount of diluted earnings per share for the six months ended June 30, 2021 were the same as basic earnings per share of the period.

For the six months ended June 30, 2022, the diluted earnings per share have been calculated as follows:

Diluted earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial year/period.

	Year ended December 31,			Six months ended	
	2019	2020	2021	June 30,	2022
				2021	
				<i>(Unaudited)</i>	
Profit/(loss) attributable to owners of the Company (US\$'000)	6,958	7,071	(4,444)	3,321	8,037
Adjustment for convertible redeemable preferred shares	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,336</u>
Adjusted profit/(losses) attributable to owners of the Company	<u>6,958</u>	<u>7,071</u>	<u>(4,444)</u>	<u>3,321</u>	<u>9,373</u>
Weighted average number of ordinary shares in issue (thousand shares)	2,884,500	2,884,500	2,884,500	2,884,500	2,884,500
Adjustments for:					
Weighted average number of convertible redeemable preferred shares and share options (thousand shares)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,031,000</u>
Weighted average number of ordinary shares for diluted earnings per share (thousand shares)	<u>2,884,500</u>	<u>2,884,500</u>	<u>2,884,500</u>	<u>2,884,500</u>	<u>3,915,500</u>
Diluted earnings/(loss) per share (US\$ cents)	<u>0.24</u>	<u>0.25</u>	<u>(0.15)</u>	<u>0.12</u>	<u>0.24</u>

APPENDIX I

ACCOUNTANT’S REPORT

14 Property, plant and equipment

	Buildings <i>US\$'000</i>	Leasehold improvements <i>US\$'000</i>	Plant and machinery <i>US\$'000</i>	Furniture, fixtures and equipment <i>US\$'000</i>	Motor vehicles <i>US\$'000</i>	Computer equipment <i>US\$'000</i>	Construction- in-progress <i>US\$'000</i>	Total <i>US\$'000</i>
At January 1, 2019								
Cost	5,227	4,903	16,379	1,199	663	2,360	1,154	31,885
Accumulated depreciation	(3,988)	(2,466)	(10,018)	(662)	(562)	(1,898)	–	(19,594)
Net book amount	1,239	2,437	6,361	537	101	462	1,154	12,291
Year ended December 31, 2019								
Opening net book amount	1,239	2,437	6,361	537	101	462	1,154	12,291
Additions	–	163	837	862	90	177	101	2,230
Transfer	–	71	1,183	–	–	–	(1,254)	–
Disposals	–	(19)	(40)	(10)	(50)	(22)	–	(141)
Depreciation	(179)	(637)	(1,083)	(233)	(74)	(182)	–	(2,388)
Currency translation differences	–	1	1	–	–	–	–	2
Closing net book amount	1,060	2,016	7,259	1,156	67	435	1	11,994
At December 31, 2019								
Cost	5,227	4,622	17,872	1,947	691	2,269	1	32,629
Accumulated depreciation	(4,167)	(2,606)	(10,613)	(791)	(624)	(1,834)	–	(20,635)
Net book amount	1,060	2,016	7,259	1,156	67	435	1	11,994
At January 1, 2020								
Cost	5,227	4,622	17,872	1,947	691	2,269	1	32,629
Accumulated depreciation	(4,167)	(2,606)	(10,613)	(791)	(624)	(1,834)	–	(20,635)
Net book amount	1,060	2,016	7,259	1,156	67	435	1	11,994

APPENDIX I

ACCOUNTANT’S REPORT

	Buildings US\$'000	Leasehold improvements US\$'000	Plant and machinery US\$'000	Furniture, fixtures and equipment US\$'000	Motor vehicles US\$'000	Computer equipment US\$'000	Construction- in-progress US\$'000	Total US\$'000
Year ended								
December 31, 2020								
Opening net book amount	1,060	2,016	7,259	1,156	67	435	1	11,994
Acquisition of a subsidiary (Note 38)	-	4	-	-	-	-	-	4
Additions	-	24	664	155	20	119	17	999
Disposals	-	(1)	(5)	(104)	(4)	(2)	-	(116)
Depreciation	(179)	(664)	(1,128)	(303)	(31)	(169)	-	(2,474)
Currency translation differences	-	4	26	37	3	8	-	78
Closing net book amount	881	1,383	6,816	941	55	391	18	10,485
At December 31, 2020								
Cost	5,227	4,458	17,510	1,846	645	2,241	18	31,945
Accumulated depreciation	(4,346)	(3,075)	(10,694)	(905)	(590)	(1,850)	-	(21,460)
Net book amount	881	1,383	6,816	941	55	391	18	10,485
Year ended								
December 31, 2021								
Opening net book amount	881	1,383	6,816	941	55	391	18	10,485
Additions	-	5	208	660	-	129	49	1,051
Transfer	-	-	41	-	-	-	(41)	-
Disposals	-	(39)	(48)	(207)	-	(6)	-	(300)
Depreciation	(179)	(526)	(1,066)	(322)	(19)	(143)	-	(2,255)
Currency translation differences	-	(9)	(37)	(47)	(1)	(13)	-	(107)
Closing net book amount	702	814	5,914	1,025	35	358	26	8,874

APPENDIX I

ACCOUNTANT’S REPORT

	Buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Computer equipment	Construction-in-progress	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
At December 31, 2021								
Cost	5,227	4,123	17,240	2,084	393	2,176	26	31,269
Accumulated depreciation	(4,525)	(3,309)	(11,326)	(1,059)	(358)	(1,818)	–	(22,395)
Net book amount	702	814	5,914	1,025	35	358	26	8,874
At January 1, 2022								
Cost	5,227	4,123	17,240	2,084	393	2,176	26	31,269
Accumulated depreciation	(4,525)	(3,309)	(11,326)	(1,059)	(358)	(1,818)	–	(22,395)
Net book amount	702	814	5,914	1,025	35	358	26	8,874
Six months ended June 30, 2022								
Opening net book amount	702	814	5,914	1,025	35	358	26	8,874
Additions	–	77	292	133	36	88	189	815
Transfer	–	–	123	–	–	–	(123)	–
Disposals	–	–	(10)	(89)	–	–	–	(99)
Depreciation	(89)	(112)	(490)	(184)	(8)	(70)	–	(953)
Written off	–	–	–	(311)	–	–	–	(311)
Currency translation differences	–	(11)	(37)	(36)	(5)	(18)	–	(107)
Closing net book amount	613	768	5,792	538	58	358	92	8,219
At June 30, 2022								
Cost	5,227	4,136	17,387	1,622	416	2,148	92	31,028
Accumulated depreciation	(4,614)	(3,368)	(11,595)	(1,084)	(358)	(1,790)	–	(22,809)
Net book amount	613	768	5,792	538	58	358	92	8,219

APPENDIX I

ACCOUNTANT’S REPORT

Depreciation expenses have been charged in the following categories in the consolidated statements of profit or loss:

	Year ended December 31,			Six months ended	
	2019	2020	2021	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				<i>(Unaudited)</i>	
Cost of sales	794	897	855	439	378
Selling and marketing expenses	82	70	77	39	39
General and administrative expenses	919	990	846	452	338
Research and development expenses	593	517	477	250	198
	<u>2,388</u>	<u>2,474</u>	<u>2,255</u>	<u>1,180</u>	<u>953</u>

15 Leases

(a) Amounts recognized in the consolidated balance sheets

The consolidated balance sheets show the following amounts relating to leases:

	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
	US\$'000	US\$'000	US\$'000	US\$'000
Right-of-use assets				
Buildings	2,350	1,065	3,681	3,732
Land use right	780	754	728	715
Motor vehicles	188	178	109	45
Office equipment	96	69	49	91
	<u>3,414</u>	<u>2,066</u>	<u>4,567</u>	<u>4,583</u>
Lease liabilities				
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>

Additions to the right-of-use assets during each of the years ended December 31, 2019, 2020 and 2021 and six months ended June 30, 2022 were approximately US\$378,000, US\$278,000, US\$2,119,000, and US\$141,000, respectively.

APPENDIX I

ACCOUNTANT’S REPORT

(b) Amounts recognized in the consolidated statements of profit or loss

The consolidated statements of profit or loss shows the following amounts relating to leases:

	Year ended December 31,			Six months ended	
	2019	2020	2021	June 30, 2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Depreciation charge of right-of-use assets					
Land use right	26	26	26	13	13
Buildings	1,461	1,321	1,182	573	713
Motor vehicles	70	66	54	28	17
Office equipment	28	28	26	13	12
	<u>1,585</u>	<u>1,441</u>	<u>1,288</u>	<u>627</u>	<u>755</u>
Expense relating to short-term leases	<u>951</u>	<u>946</u>	<u>1,141</u>	<u>586</u>	<u>525</u>
Interest expense (included in finance cost)	<u>120</u>	<u>77</u>	<u>76</u>	<u>40</u>	<u>57</u>
Gain on lease modification	<u>2</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2</u>

The total cash outflow for leases for each of the years ended December 31, 2019, 2020 and 2021 and six months ended June 30, 2021 and 2022 was US\$2,568,000, US\$2,386,000, and US\$2,514,000, US\$1,333,000 and US\$1,280,000.

(c) The Group’s leasing activities and how these are accounted for

The Group leases office premises, warehouses, office equipment and motor vehicles. Rental contracts are typically made for fixed periods of 2 to 5 years but may have extension options as described in (d) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The Group also obtained the land use right through lease contract with local government in the PRC with 50 years term.

(d) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximize operational flexibility in terms of managing the assets used in the Group’s operations.

16 INVESTMENT IN A SUBSIDIARY

The Company

	December 31, 2021	June 30, 2022
	US\$'000	US\$'000
Unlisted shares, at cost	<u>30,265</u>	<u>30,633</u>

APPENDIX I

ACCOUNTANT'S REPORT

The movements of investment in a subsidiary were as follows:

	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>
Beginning of period	–	30,265
Acquisition of a subsidiary under common control transaction	28,926	–
Share-based payment compensation to employees of subsidiaries	1,339	368
	<u>30,265</u>	<u>30,633</u>
End of period	<u>30,265</u>	<u>30,633</u>

17 DEFERRED INCOME TAX

The analysis of deferred income tax assets are as follows:

	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Deferred income tax assets	<u>2,967</u>	<u>3,539</u>	<u>2,859</u>	<u>2,123</u>

The gross movements on the deferred income tax account are as follows:

	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Beginning of year/period	2,971	2,967	3,539	2,859
(Charged)/credited to the consolidated statements of profit or loss (<i>Note 11</i>)	(17)	565	(668)	(736)
Exchange difference	<u>13</u>	<u>7</u>	<u>(12)</u>	<u>–</u>
At end of year/period	<u>2,967</u>	<u>3,539</u>	<u>2,859</u>	<u>2,123</u>

The movements in deferred income tax assets during the year/period, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets	Unrealized profit on inventories	Tax losses	Decelerated tax depreciation	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
At January 1, 2019	2,971	–	–	2,971
(Charged)/credited to the consolidated statements of profit or loss	(815)	773	25	(17)
Exchange difference	<u>–</u>	<u>13</u>	<u>–</u>	<u>13</u>

APPENDIX I

ACCOUNTANT’S REPORT

Deferred income tax assets	Unrealized profit on inventories <i>US\$'000</i>	Tax losses <i>US\$'000</i>	Decelerated tax depreciation <i>US\$'000</i>	Total <i>US\$'000</i>
At December 31, 2019 and January 1, 2020	2,156	786	25	2,967
Credited/(charged) to the consolidated statements of profit or loss	934	(344)	(25)	565
Exchange difference	–	7	–	7
At December 31, 2020 and January 1, 2021	3,090	449	–	3,539
Charged to the consolidated statements of profit or loss	(314)	(354)	–	(668)
Exchange difference	–	(12)	–	(12)
At December 31, 2021 and January 1, 2022	2,776	83	–	2,859
Charged to the consolidated statements of profit or loss	(729)	(7)	–	(736)
At June 30, 2022	<u>2,047</u>	<u>76</u>	<u>–</u>	<u>2,123</u>

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of US\$19,782,000, US\$20,627,000, US\$20,911,000 and US\$21,082,000 in respect of losses amounting to approximately US\$89,348,000, US\$93,604,000, US\$91,898,000 and US\$92,152,000 at December 31, 2019, 2020 and 2021 and June 30, 2022, respectively.

The unrecognized estimated tax losses are analyzed by years from expiring as follows:

	December 31, 2019 <i>US\$'000</i>	December 31, 2020 <i>US\$'000</i>	December 31, 2021 <i>US\$'000</i>	June30, 2022 <i>US\$'000</i>
With no expiry date	10,968	14,724	9,555	9,004
Within 1 year	–	5	5	5
2 to 5 years	5,053	6,165	6,005	5,078
6 to 10 years	6,742	6,125	9,727	11,450
11 to 21 years	66,585	66,585	66,606	66,615
	<u>89,348</u>	<u>93,604</u>	<u>91,898</u>	<u>92,152</u>

For each of the years ended December 31, 2019, 2020 and 2021 and six months ended June 30, 2022, the Group had deductible temporary differences of approximately US\$10,609,000, US\$12,539,000, US\$10,834,000 and US\$12,913,000 mainly arising from research and development tax credit, retirement benefit obligations and decelerated depreciation allowance. No deferred tax assets has been recognized in relation to such deductible temporary difference as it is not probable that taxable profit will be available again which the deductible temporary differences can be utilized.

Deferred income tax liabilities of approximately US\$4,405,000, US\$4,902,000, US\$6,179,000 and US\$6,771,000 have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of a subsidiary. Such amounts are permanently reinvested. Unremitted earnings totalled US\$44,047,000, US\$49,023,000, US\$61,789,000 and US\$67,706,000 at December 31, 2019, 2020 and 2021 and June 30, 2022.

APPENDIX I

ACCOUNTANT’S REPORT

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group

Financial assets measured at fair value through profit or loss include the following:

	December 31, 2019	December 31, 2020	December 31, 2021	June30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Life insurance policies	1,829	2,048	2,041	1,793
The Commodity Linked Fixed Rate Note	—	—	—	18,734
Total	1,829	2,048	2,041	20,527

During the six months ended June 30, 2022, the Company acquired the Commodity Linked Fixed Rate Note, which was issued by a reputable international investment bank. It was classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest. The accounting policy of the Commodity Linked Fixed Rate Note is disclosed in Note 2.9.

Amounts recognized in profit or loss

During the Track Record Period, the following gains/(losses) were recognized in the consolidated statements of profit or loss:

	Year ended December 31,			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>	<i>US\$'000</i>
				<i>(Unaudited)</i>	
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)

The Company

	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>
The Commodity Linked Fixed Rate Note	—	18,734

APPENDIX I

ACCOUNTANT’S REPORT

Amounts recognized in profit or loss

	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>
Unrealized losses of fair value change in financial assets at fair value through profit or loss	–	1,266
	<u>–</u>	<u>1,266</u>

Fair value measurements

For information about the methods and assumptions used in determining fair value, please refer to Note 3.3.

19 INTANGIBLE ASSETS

	Capitalized development costs	Customer relationship	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Year ended December 31, 2019			
Opening net book amount	–	–	–
Additions	338	–	338
Amortization charge	(3)	–	(3)
	<u>335</u>	<u>–</u>	<u>335</u>
Closing net book amount	<u>335</u>	<u>–</u>	<u>335</u>
At December 31, 2019			
Cost	338	–	338
Accumulated amortization	(3)	–	(3)
	<u>335</u>	<u>–</u>	<u>335</u>
Closing net book amount	<u>335</u>	<u>–</u>	<u>335</u>
Year ended December 31, 2020			
Opening net book amount	335	–	335
Acquisition of a subsidiary (<i>Note 38</i>)	–	1,176	1,176
Additions	2,609	–	2,609
Amortization charge	(133)	(43)	(176)
Exchange difference	22	–	22
	<u>2,833</u>	<u>1,133</u>	<u>3,966</u>
Closing net book amount	<u>2,833</u>	<u>1,133</u>	<u>3,966</u>
At December 31, 2020			
Cost	2,969	1,176	4,145
Accumulated amortization	(136)	(43)	(179)
	<u>2,833</u>	<u>1,133</u>	<u>3,966</u>
Closing net book amount	<u>2,833</u>	<u>1,133</u>	<u>3,966</u>

APPENDIX I

ACCOUNTANT’S REPORT

	Capitalized development costs <i>US\$'000</i>	Customer relationship <i>US\$'000</i>	Total <i>US\$'000</i>
Year ended December 31, 2021			
Opening net book amount	2,833	1,133	3,966
Additions	894	–	894
Amortization charge	(345)	(131)	(476)
Exchange difference	(117)	–	(117)
Closing net book amount	3,265	1,002	4,267
At December 31, 2021			
Cost	3,737	1,176	4,913
Accumulated amortization	(472)	(174)	(646)
Closing net book amount	3,265	1,002	4,267
Six months ended June 30, 2022			
Opening net book amount	3,265	1,002	4,267
Additions	271	–	271
Amortization charge	(189)	(65)	(254)
Exchange difference	(146)	–	(146)
Closing net book amount	3,201	937	4,138
At June 30, 2022			
Cost	3,835	1,176	5,011
Accumulated amortization	(634)	(239)	(873)
Closing net book amount	3,201	937	4,138

Amortization expenses have been charged in the following categories in the consolidated statements of profit or loss:

	Year ended December 31,			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>
Selling and marketing expenses	–	43	131	66	65
Research and development expenses	3	133	345	161	189
	3	176	476	227	254

APPENDIX I

ACCOUNTANT’S REPORT

20 GOODWILL

US\$'000

Opening net book amount as at January 1, 2020	–
Acquisition of a subsidiary (<i>Note 38</i>)	1,749
	<hr/>
Closing net book amount as at December 31, 2020 and 2021 and June 30, 2022	1,749
	<hr/> <hr/>

The recoverable amount of the cash-generating unit (“CGU”) relating to OrbusNeich (Switzerland) AG is determined based on 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 which does not exceed the long-term average growth rate in which the CGU operates.

The key parameters used for value-in-use calculations are as follows:

	At December 31, 2020	At December 31, 2021	At 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%

The revenue growth rate for the forecast period and budgeted gross margin were determined by the management based on past performance and its expectation for market and product development.

As at December 31, 2020 and 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. The directors of the Company 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.

With all other variables held constant, the management estimates the headroom would drop to zero as at December 31, 2020 and 2021 and June 30, 2022, respectively.

	At December 31, 2020	At December 31, 2021	At 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%

In accordance with the Group’s accounting policies, goodwill is tested for impairment on an annual basis at each year end. As at December 31, 2020 and 2021 and June 30, 2022, the management is not aware of any significant adverse changes on the development of the Group, which indicates that the carrying amount of the CGU exceeds the recoverable amount.

APPENDIX I

ACCOUNTANT’S REPORT

21 INTEREST IN A JOINT VENTURE

Interest in a joint venture

	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Share of net assets:				
Beginning of year/period	–	–	5,051	4,844
Addition	–	5,097	–	–
Share of loss of a joint venture	–	(46)	(207)	(71)
	<u>–</u>	<u>4,951</u>	<u>4,844</u>	<u>4,773</u>
End of year/period	–	5,051	4,844	4,773
	<u>–</u>	<u>–</u>	<u>3,044</u>	<u>3,044</u>
Advance to a joint venture (<i>Note</i>)	–	–	3,044	3,044
	<u>–</u>	<u>5,051</u>	<u>7,888</u>	<u>7,817</u>

Note: During the year December 31, 2021, management reassessed the capital needs of the joint venture and reclassified the amount due from joint venture as part of the Group’s net investment in such joint venture. The advance to a joint venture was non-trade in nature, unsecured, interest free and would not be demanded for repayment within 12 months from the end of the reporting period and prior to the [REDACTED]. The carrying amount approximate their fair values and are denominated in US\$.

Nature of investment in a joint venture:

Name	Registered capital	Place of incorporation	Principal activities	Percentage of interest held			
				December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
OrbusNeich P+F Company Limited	US\$50,000	BVI	Investment holding	–	50%	50%	50%

OrbusNeich P+F Company Limited and its subsidiaries are principal engaged in manufacturing and distribution of heart valve products.

	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Current assets	–	460	734	504
Non-current assets	–	4,657	6,986	7,502
Current liabilities	–	(113)	(3,130)	(3,229)
Non-current liabilities	–	–	–	(329)
	<u>–</u>	<u>4,547</u>	<u>3,854</u>	<u>4,448</u>
Net assets	–	5,004	4,590	4,448
	<u>–</u>	<u>2,502</u>	<u>2,295</u>	<u>2,224</u>
Group’s share of net assets	–	2,502	2,295	2,224
Goodwill	–	2,549	2,549	2,549
	<u>–</u>	<u>5,051</u>	<u>4,844</u>	<u>4,773</u>
Carrying amount	–	5,051	4,844	4,773

APPENDIX I

ACCOUNTANT’S REPORT

	Year ended December 31,			Six months ended	
	2019	2020	2021	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenue	–	–	129	–	146
Loss for the year/period	–	(92)	(413)	(298)	(142)
Other comprehensive income	–	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total comprehensive loss	<u>–</u>	<u>(92)</u>	<u>(413)</u>	<u>(298)</u>	<u>(142)</u>

(Unaudited)

Commitment in respect of the joint venture:

	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
	US\$'000	US\$'000	US\$'000	US\$'000
Commitment to providing funding to a joint venture	–	5,642	5,251	4,845
	<u>–</u>	<u>5,642</u>	<u>5,251</u>	<u>4,845</u>

There are no contingent liabilities relating to the Group’s interest in the joint venture.

22 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

The Group

	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
	US\$'000	US\$'000	US\$'000	US\$'000
Deposits	846	892	970	905
Prepayments	1,102	961	1,179	2,511
Prepaid [REDACTED]	–	–	[REDACTED]	[REDACTED]
Deferred [REDACTED]	–	–	[REDACTED]	[REDACTED]
Other receivables	360	499	693	792
	<u>2,308</u>	<u>2,352</u>	<u>3,723</u>	<u>5,181</u>
Less non-current portion:				
Deposits and other receivables	(472)	(55)	(528)	(547)
Prepayments for property, plant and equipment	(504)	(16)	(195)	(505)
Prepayments for intangible assets	–	(204)	(204)	(204)
	<u>(976)</u>	<u>(275)</u>	<u>(927)</u>	<u>(1,256)</u>
Current portion	<u>1,332</u>	<u>2,077</u>	<u>2,796</u>	<u>3,925</u>

APPENDIX I

ACCOUNTANT’S REPORT

Deposits, prepayments and other receivables are denominated in the following currencies:

	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
US\$	626	329	821	1,823
HK\$	517	269	726	1,023
RMB	120	376	570	665
EUR	379	933	1,033	1,014
JPY	506	396	442	303
Other currencies	160	49	131	353
	<u>2,308</u>	<u>2,352</u>	<u>3,723</u>	<u>5,181</u>

The Company

	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>
Prepaid [REDACTED]	[REDACTED]	[REDACTED]
Deferred [REDACTED]	[REDACTED]	[REDACTED]
Other prepayments	–	202
Other receivables	–	118
	<u>881</u>	<u>1,293</u>

As at December 31, 2021 and June 30, 2022, the prepayments and other receivables are denominated in the following currencies:

	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>
US\$	396	611
HK\$	300	611
RMB	49	31
EUR	127	32
Other currencies	9	8
	<u>881</u>	<u>1,293</u>

The carrying amounts of deposits and other receivables approximate their fair values.

The deposits and other receivables do not contain impaired assets.

The maximum exposure to credit risk at each of the reporting dates is the carrying value of the deposits and other receivables. The Group does not hold any collateral as security.

APPENDIX I

ACCOUNTANT’S REPORT

23 INVENTORIES

	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 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
	<u>26,084</u>	<u>30,102</u>	<u>29,845</u>	<u>28,929</u>
Inventories – gross	26,084	30,102	29,845	28,929
Less: Provision for inventories (Note)	<u>(48)</u>	<u>(64)</u>	<u>(275)</u>	<u>(1,029)</u>
	<u><u>26,036</u></u>	<u><u>30,038</u></u>	<u><u>29,570</u></u>	<u><u>27,900</u></u>

Note: The cost of inventories recognized as expense and included in ‘cost of sales’ amounting to approximately US\$16,299,000, US\$16,282,000, US\$17,640,000, US\$8,397,000 and US\$10,843,000 for each of the years ended December 31, 2019, 2020 and 2021 and six months ended June 30, 2021 and 2022, respectively. Provision for inventories amounting to US\$48,000, US\$16,000, US\$256,000, US\$19,000 and US\$837,000 for each of the years ended December 31, 2019, 2020 and 2021 and six months ended June 30, 2021 and 2022, respectively was included in the cost of sales.

24 TRADE RECEIVABLES

	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Trade receivables (Note)	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><u>32,609</u></u>	<u><u>26,316</u></u>	<u><u>26,804</u></u>	<u><u>29,700</u></u>

Note: At December 31, 2019, 2020 and 2021 and June 30, 2022, trade receivables from a related party amounted to approximately US\$4,400,000, US\$2,170,000, Nil and Nil respectively, as disclosed in Note 39(b).

The majority of the Group’s sales are with credit terms of 30 to 180 days. The carrying amounts of trade receivables approximate their fair values.

The ageing analysis of the trade receivables based on invoice date, before provision for impairment, is as follows:

	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<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>
	<u><u>35,475</u></u>	<u><u>28,406</u></u>	<u><u>28,391</u></u>	<u><u>31,558</u></u>

APPENDIX I

ACCOUNTANT’S REPORT

Movements in the loss allowance of trade receivables are as follows:

	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Beginning of year/period	1,514	2,866	2,090	1,587
Movement in loss allowance	1,407	(931)	(109)	402
Trade receivables written off during the year/period as uncollectible	(26)	(15)	(265)	–
Currency translation difference	(29)	170	(129)	(131)
End of year/period	<u>2,866</u>	<u>2,090</u>	<u>1,587</u>	<u>1,858</u>

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

Information about the impairment of trade receivables and the Group’s exposure to credit risk can be found in Note 3.1(b)(ii).

The carrying amounts of the Group’s trade receivables, net are denominated in the following currencies:

	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
US\$	12,658	9,100	5,608	9,048
HK\$	1,731	2,204	2,767	2,557
JPY	8,525	8,879	9,209	8,813
EUR	6,242	3,144	4,631	4,173
Other currencies	3,453	2,989	4,589	5,109
	<u>32,609</u>	<u>26,316</u>	<u>26,804</u>	<u>29,700</u>

25 CASH AND CASH EQUIVALENTS, PLEDGED AND SHORT-TERM BANK DEPOSITS

The Group

	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Cash at banks and on hand	13,631	15,112	175,886	131,619
Short-term bank deposit (<i>Note a</i>)	–	–	–	20,000
Pledged bank deposit (<i>Note b</i>)	–	–	–	15,000
	<u>13,631</u>	<u>15,112</u>	<u>175,886</u>	<u>166,619</u>

Notes:

- (a) Short-term bank deposits were deposits with original maturities over three months and less than one year and denominated in US\$.
- (b) Pledged bank deposit represents comfort cash to be maintained with the relevant bank for the banking facilities of the Group and is denominated in US\$ (Note 34).

APPENDIX I

ACCOUNTANT’S REPORT

Cash at banks and on hand include the following for the purposes of the consolidated statements of cash flows:

	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Cash and bank balances	13,631	15,112	175,886	86,619
Time deposits with original maturity of less than three months	—	—	—	45,000
	<u>13,631</u>	<u>15,112</u>	<u>175,886</u>	<u>131,619</u>

Cash and cash equivalents are denominated in the following currencies:

	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
US\$	3,123	3,315	164,118	112,229
HK\$	2,432	314	454	790
RMB	624	722	1,307	3,292
JPY	4,023	6,528	4,291	4,795
EUR	2,110	1,910	1,525	5,723
Other currencies	1,319	2,323	4,191	4,790
	<u>13,631</u>	<u>15,112</u>	<u>175,886</u>	<u>131,619</u>

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of PRC are subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

As at December 31, 2019, 2020 and 2021 and June 30, 2022, the Group held RMB denominated cash and bank balances totalling approximately US\$624,000, US\$722,000, US\$1,307,000, and US\$3,292,000 which were kept in the PRC, the conversion and remittance of which are subject to these rules and regulations.

The Company

	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>
Cash at banks	149,104	60,831
Short-term bank deposit (<i>Note</i>)	—	20,000
	<u>149,104</u>	<u>80,831</u>

Note: Short-term bank deposits were deposits with original maturities over three months and less than one year and denominated in US\$.

APPENDIX I

ACCOUNTANT’S REPORT

Cash at banks include the following:

	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>
Cash at banks	149,104	15,831
Time deposits with original maturity of less than three months	—	45,000
	<u>149,104</u>	<u>60,831</u>

Cash and cash equivalents are denominated in the following currencies:

	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>
US\$	149,100	60,829
HK\$	4	2
	<u>149,104</u>	<u>60,831</u>

Interest rates of short-term bank deposit and pledged bank deposit ranged from 0.8% to 1.6% per annum for the six months ended June 30, 2022.

The carrying amounts of cash and cash equivalents, pledged and short-term bank deposits approximate their fair values.

26 SHARE CAPITAL

The Group and Company

	Number of shares	<i>US\$'000</i>
Authorized:		
Upon incorporation	500,000,000	50
Increase in authorized share capital (<i>Note b</i>)	5,500,000,000	550
	<u>6,000,000,000</u>	<u>600</u>
At December 31, 2021 and June 30, 2022	<u>6,000,000,000</u>	<u>600</u>
Represented by:		
Ordinary shares	5,018,814,933	502
Series A preferred shares (<i>Note 29</i>)	234,784,854	23
Series A-2 preferred shares (<i>Note 29</i>)	746,400,213	75
	<u>6,000,000,000</u>	<u>600</u>
At December 31, 2021 and June 30, 2022	<u>6,000,000,000</u>	<u>600</u>
Issued and fully paid:		
Upon incorporation	1	—
Issue of shares (<i>Note c</i>)	2,884,499,620	288
	<u>2,884,499,621</u>	<u>288</u>
At December 31, 2021 and June 30, 2022	<u>2,884,499,621</u>	<u>288</u>

APPENDIX I

ACCOUNTANT'S REPORT

Notes:

- (a) The Company was incorporated on July 22, 2021 with 1 ordinary share of US\$0.0001 issued and allotted to initial subscriber. On the same day, the initial subscriber transferred one ordinary share at par to Harmony Tree Limited.
- (b) Pursuant to a sole shareholder's resolution dated September 28, 2021:
 - (i) The authorized share capital of the Company was increased to US\$600,000 by creation of additional 5,500,000,000 shares of a par value of US\$0.0001 each. The authorized share capital became US\$600,000, divided into 6,000,000,000 shares of a par value of US\$0.0001 each.
 - (ii) Subsequently, the aforementioned authorized share capital of the Company was reclassified and redesignated into (i) 5,018,814,933 ordinary shares of a par value of US\$0.0001 each, (ii) 234,784,854 convertible series A preferred shares of a par value of US\$0.0001 each and (iii) 746,400,213 convertible series A-2 preferred shares of a par value of US\$0.0001 each.
- (c) Pursuant to director's written resolutions dated September 28, 2021, the Company issued 2,884,499,620 ordinary shares of par value of US\$0.0001 each to the shareholders of COSMIC in exchange for 1,878,278,823 ordinary shares of par value of US\$0.0001 each of COSMIC.

27 SHARE OPTIONS

(a) Share option scheme established by ONM BVI

OrbusNeich Medical Company Limited ("ONM BVI") set up two incentive plans: (1) Class A share option scheme and (2) 2008 Omnibus incentive plan. The directors and selected employees of the Group are eligible to purchase the ordinary share of ONM BVI under these two incentive plans.

Class A share option scheme was established by ONM BVI on May 20, 2005 which remained in force for 10 years and expired on May 19, 2015. No share option can be further granted thereunder, where outstanding share options under the scheme remain valid and exercisable starting 6 years from the grant date. The exercise price of the granted options and vesting condition are determined by the board of directors of ONM BVI and stated in the agreement for such grant, and the exercise price shall not be less the par value of the share of ONM BVI. As at December 31, 2018, 2019 and 2020, the weighted average exercise price were US\$0.40, US\$0.40 and US\$0.40 respectively. All share options are vested during the Track Record Period.

2008 Omnibus incentive plan was established by ONM BVI on December 15, 2008 which remained in force for 10 years and expired on December 14, 2018. No share option can be further granted thereunder, where outstanding share options under the scheme remain valid and exercisable starting 10 years from the grant date. This plan provides for the grant of stock options, stock appreciation rights, restricted stocks, stock units, unrestricted stocks and dividend equivalent rights. Except for stock options, no other awards were granted since its establishment. The exercise price of the granted options and vesting condition are determined by the board of directors of ONM BVI and stated in the agreement for such grant, and the exercise price shall not be less the par value of the share of ONM BVI. As at December 31, 2018, 2019 and 2020, the weighted average exercise price were US\$0.40, US\$0.40 and US\$0.40 respectively. All share options are vested during the Track Record Period.

The outstanding options exercisable were 11,724,587 as at December 31, 2019. During the year ended December 31, 2020, all vested share options were cancelled and no outstanding options as at December 31, 2020 and 2021 were exercisable.

No share option was exercised and granted during the Track Record Period.

APPENDIX I

ACCOUNTANT’S REPORT

(b) Share option scheme established by the Company

ONM Group Ltd., a subsidiary of the Company, set up a share incentive plan: 2020 share option scheme on January 1, 2021 in which the directors and selected employees of the Group are eligible to purchase the ordinary shares of ONM Group Ltd..

On September 28, 2021, due to the Reorganization, the Company renamed the amended scheme as 2021 share option scheme, in which the directors and selected employees of the Group are eligible to purchase the ordinary shares of the Company, instead of ONM Group Ltd..

The share option scheme will remain in force for 10 years and will be expired on January 1, 2031. Outstanding share options under the scheme remain valid and exercisable starting 10 years from the grant date. The exercise price of the granted options and vesting condition are determined by the board of directors of ONM Group Ltd. and stated in the agreement for such grant. The options are vested over periods of one to four years from the grant date and the exercise price of each option ranged from US\$0.1 to US\$0.2.

During the year ended December 31, 2021, 49,814,500 share options with average exercise price of US\$0.18 per share option were issued. There is no share option exercised for the year ended December 31, 2021 and six months ended June 30, 2022.

Share options outstanding at the end of the year/period have the following expiry date and exercise prices:

Expiry date	Exercise price in US\$ per share option	Options	
		As at December 31, 2021	As at June 30, 2022
2031	0.10	384,500	384,500
2031	0.15	18,150,000	18,150,000
2031	0.20	31,280,000	31,280,000
		<u>49,814,500</u>	<u>49,814,500</u>

The weighted average fair value of options granted during the year ended December 31, 2021 determined using the Polynomial option price model was US\$0.0538 per option. The significant input into the model were exercise prices of US\$0.10, US\$0.15 or US\$0.20, spot price of the Company of US\$0.128 per share, expected volatility of 56.37% based on the historical volatilities of the comparable companies, 0% expected dividend yield, an expected option life of 10 years and risk-free rate of 0.92%. See Note 9 for the total expense recognized in the consolidated statement of profit or loss for share options granted to directors and selected employees.

APPENDIX I

ACCOUNTANT'S REPORT

28 OTHER RESERVES AND ACCUMULATED LOSSES

	Other reserve <i>US\$'000</i> <i>(Note (d))</i>	Currency translation reserve <i>US\$'000</i>	Statutory reserve <i>US\$'000</i> <i>(Note (c))</i>	Share-based compensation reserve <i>US\$'000</i>	Accumulated losses <i>US\$'000</i>	Total <i>US\$'000</i>
At January 1, 2019	–	(12,305)	2,503	2,957	(152,188)	(159,033)
Profit for the year	–	–	–	–	6,958	6,958
Other comprehensive income/(loss):						
– Remeasurements of post-employment benefit obligations	–	–	–	–	40	40
– Currency translation differences	–	(256)	–	–	–	(256)
Total other comprehensive (loss)/income, net of tax	–	(256)	–	–	40	(216)
Total comprehensive (loss)/income	–	(256)	–	–	6,998	6,742
Transaction with owner:						
– Employee share option scheme: lapse of share options	–	–	–	(62)	62	–
At December 31, 2019	–	(12,561)	2,503	2,895	(145,128)	(152,291)

APPENDIX I

ACCOUNTANT’S REPORT

	Other reserve <i>US\$'000</i> <i>(Note (d))</i>	Currency translation reserve <i>US\$'000</i>	Statutory reserve <i>US\$'000</i> <i>(Note (c))</i>	Share-based compensation reserve <i>US\$'000</i>	Accumulated losses <i>US\$'000</i>	Total <i>US\$'000</i>
At January 1, 2020	–	(12,561)	2,503	2,895	(145,128)	(152,291)
Profit for the year	–	–	–	–	7,071	7,071
Other comprehensive (loss)/income:						
– Remeasurements of post-employment benefit obligations	–	–	–	–	(134)	(134)
– Realization of accumulated exchange difference upon dissolution of a subsidiary	–	17	–	–	–	17
– Currency translation differences	–	1,246	–	–	–	1,246
Total other comprehensive income/(loss), net of tax	–	1,263	–	–	(134)	1,129
Total comprehensive income	–	1,263	–	–	6,937	8,200
Transactions with owner:						
– Deemed contribution <i>(Note 1.2)</i>	187,828	–	–	–	–	187,828
– Deemed distribution to shareholders <i>(Note (a))</i>	(8,841)	–	–	–	–	(8,841)
– Employee share option scheme: lapse of share options	–	–	–	(290)	290	–
Total transactions with owner	178,987	–	–	(290)	290	178,987
At December 31, 2020	<u>178,987</u>	<u>(11,298)</u>	<u>2,503</u>	<u>2,605</u>	<u>(137,901)</u>	<u>34,896</u>

APPENDIX I

ACCOUNTANT’S REPORT

	Other reserve <i>US\$'000</i> <i>(Note (d))</i>	Currency translation reserve <i>US\$'000</i>	Statutory reserve <i>US\$'000</i> <i>(Note (c))</i>	Share-based compensation reserve <i>US\$'000</i>	Accumulated losses <i>US\$'000</i>	Total <i>US\$'000</i>
At January 1, 2021	178,987	(11,298)	2,503	2,605	(137,901)	34,896
Loss for the year	-	-	-	-	(4,444)	(4,444)
Other comprehensive loss:						
– Remeasurements of post-employment benefit obligations	-	-	-	-	(340)	(340)
– Realization of accumulated exchange difference upon dissolution of subsidiaries	-	(8)	-	-	-	(8)
– Currency translation differences	-	(3,394)	-	-	-	(3,394)
Total other comprehensive loss, net of tax	-	(3,402)	-	-	(340)	(3,742)
Total comprehensive loss	-	(3,402)	-	-	(4,784)	(8,186)
Transactions with owners:						
– Issuance of shares pursuant to share swap <i>(Note 26(c))</i>	(288)	-	-	-	-	(288)
– Reclassification of Series A-2 Preferred Shares upon completion of the Reorganization <i>(Note (b))</i>	167,193	-	-	-	-	167,193
– Changes in value of Series A Preferred Shares upon completion of the Reorganization	(12,130)	-	-	-	-	(12,130)
– Employee share option scheme: value of employee services	-	-	-	1,339	-	1,339
Total transactions with owners	154,775	-	-	1,339	-	156,114
At December 31, 2021	333,762	(14,700)	2,503	3,944	(142,685)	182,824

APPENDIX I

ACCOUNTANT’S REPORT

	Other reserve <i>US\$'000</i> <i>(Note (d))</i>	Currency translation reserve <i>US\$'000</i>	Statutory reserve <i>US\$'000</i> <i>(Note (c))</i>	Share-based compensation reserve <i>US\$'000</i>	Accumulated losses <i>US\$'000</i>	Total <i>US\$'000</i>
At January 1, 2022	333,762	(14,700)	2,503	3,944	(142,685)	182,824
Profit for the period	-	-	-	-	8,037	8,037
Other comprehensive (loss)/income:						
– Remeasurements of post-employment benefit obligations	-	-	-	-	246	246
– Currency translation differences	-	(4,084)	-	-	-	(4,084)
Total other comprehensive (loss)/income, net of tax	-	(4,084)	-	-	246	(3,838)
Total comprehensive (loss)/income	-	(4,084)	-	-	8,283	4,199
Transactions with owners:						
– Reclassification from financial liabilities to equity for Series A Preferred Shares <i>(Note (e))</i>	65,047	-	-	-	-	65,047
– Employee share option scheme: value of employee services	-	-	-	368	-	368
Total transactions with owners	65,047	-	-	368	-	65,415
At June 30, 2022	398,809	(18,784)	2,503	4,312	(134,402)	252,438

APPENDIX I

ACCOUNTANT’S REPORT

	Other reserve <i>US\$'000</i> <i>(Note (d))</i>	Currency translation reserve <i>US\$'000</i>	Statutory reserve <i>US\$'000</i> <i>(Note (c))</i>	Share-based compensation reserve <i>US\$'000</i>	Accumulated losses <i>US\$'000</i>	Total <i>US\$'000</i>
(Unaudited)						
At January 1, 2021	178,987	(11,298)	2,503	2,605	(137,901)	34,896
Loss for the period	-	-	-	-	3,321	3,321
Other comprehensive loss:						
– Remeasurements of post-employment benefit obligations	-	-	-	-	(38)	(38)
– Realization of accumulated exchange difference upon dissolution of subsidiaries	-	(8)	-	-	-	(8)
– Currency translation differences	-	(2,056)	-	-	-	(2,056)
Total other comprehensive loss, net of tax	-	(2,064)	-	-	(38)	(2,102)
Total comprehensive (loss)/income	-	(2,064)	-	-	3,283	1,219
Transactions with owners:						
– Employee share option scheme: value of employee services	-	-	-	670	-	670
Total transactions with owners	-	-	-	670	-	670
At June 30, 2021	<u>178,987</u>	<u>(13,362)</u>	<u>2,503</u>	<u>3,275</u>	<u>(134,618)</u>	<u>36,785</u>

APPENDIX I

ACCOUNTANT’S REPORT

The Company

	Other reserve US\$'000 (Note (d))	Share-based compensation reserve US\$'000	Accumulated losses US\$'000	Total US\$'000
Balance as at date of incorporation	-	-	-	-
Loss for the period	-	-	(5,606)	(5,606)
Transactions with owners:				
- Other reserve arising from the Reorganization	28,638	-	-	28,638
- Reclassification of Series A-2 Preferred Shares upon completion of the Reorganization (Note (b))	167,193	-	-	167,193
- Changes in value of Series A Preferred Shares upon completion of the Reorganization	(12,130)	-	-	(12,130)
- Employee share option scheme: value of employee services	-	1,339	-	1,339
Total transactions with owners	<u>183,701</u>	<u>1,339</u>	<u>-</u>	<u>185,040</u>
At December 31, 2021	<u><u>183,701</u></u>	<u><u>1,339</u></u>	<u><u>(5,606)</u></u>	<u><u>179,434</u></u>
	Other reserve US\$'000 (Note (d))	Share-based compensation reserve US\$'000	Accumulated losses US\$'000	Total US\$'000
At January 1, 2022	183,701	1,339	(5,606)	179,434
Loss for the period	-	-	(5,144)	(5,144)
Transactions with owners:				
- Reclassification from financial liabilities to equity for Series A Preferred Shares (Note (e))	65,047	-	-	65,047
- Employee share option scheme: value of employee services	-	368	-	368
Total transactions with owners	<u>65,047</u>	<u>368</u>	<u>-</u>	<u>65,415</u>
At June 30, 2022	<u><u>248,748</u></u>	<u><u>1,707</u></u>	<u><u>(10,750)</u></u>	<u><u>239,705</u></u>

APPENDIX I

ACCOUNTANT’S REPORT

Notes:

- (a) Deemed distribution of US\$8,841,000 represents the difference between the investment cost of ONM Group Ltd. and the paid-up capital of the shares issued by COSMIC upon the acquisition.
- (b) Following the completion of the Reorganization on September 28, 2021, the carrying amount of series A-2 preferred shares of US\$167,193,000 was reclassified to equity as (i) the Company only has the obligation to deliver its ordinary shares, and (ii) all the activities that may cause adjustment to the conversion ratio of such preferred shares are within the control of the Company.
- (c) Statutory reserve is non-distributable and the transfers of these funds are in accordance with law and regulations in the PRC. The subsidiary established in the PRC is required to make appropriations to certain statutory reserves from profit for the year after offsetting accumulated losses from prior years and before any profit distribution to equity holders. The percentages to be appropriated to different statutory reserves are determined according to the relevant regulations in the PRC or at the discretion of the directors of the subsidiary. Such statutory reserves can only be used to offset accumulated losses, to increase capital, or for special bonus or collective welfare of employees. These statutory reserves cannot be distributed to equity holders of the subsidiary.
- (d) The amount as at December 31, 2021 includes 746,400,213 issued Series A-2 Preferred Shares amounting to US\$167,193,000. The amount as at June 30, 2022 includes 746,400,213 and 234,784,854 issued Series A and Series A-2 Preferred Shares amounting to US\$167,193,000 and US\$65,047,000, respectively. The rights and preferences of the Series A and Series A-2 Preferred Shares have been disclosed in Note 29.
- (e) During the six months ended June 30, 2022, upon the fulfillment of condition attached in the Series A shares subscription agreement (i.e. the fulfillment of profit target for the year ended December 31, 2021), the conversion adjustment right granted to the holders of Series A Preferred Shares are terminated and therefore all the activities that may cause adjustment to the conversion ratio of the Series A Preferred Shares are within the control of the Company. As such, the Series A Preferred Shares amounting to US\$65,047,000 were reclassified from liability to equity and accounted for as other reserve.

29 CONVERTIBLE REDEEMABLE PREFERRED SHARES

On April 27, 2021, pursuant to the initial series A preferred shares subscription agreement, ONM Group Ltd., a subsidiary of the Company issued 234,784,854 series A preferred shares to the Series A Investors at consideration of US\$35,000,000. On June 10, 2021, ONM Group Ltd., entered into a share subscription agreement, to issue series A-2 preferred shares to the Series A-2 Investors. Such 746,400,213 series A-2 preferred shares were issued in July 2021 and August 2021 at an aggregate consideration of US\$167,500,000.

The series A and series A-2 preferred shares are hybrid instruments which contain financial liability hosts and embedded derivatives. The embedded derivatives have been bifurcated from the financial liability hosts and measured at fair value with changes in fair value recognized in the consolidated statements of profit or loss.

Upon the completion of the Reorganization on September 28, 2021, (i) the series A preferred shares held by the Series A Investors were swapped into Series A Preferred Shares of the Company (“Series A Preferred Shares”) and (ii) the series A-2 preferred shares held by the Series A-2 Investors were swapped into Series A-2 Preferred Shares of the Company (“Series A-2 Preferred Shares”).

In conjunction with the above event, the Company derecognized the financial liability host and embedded derivative for series A convertible redeemable preferred shares, and instead recognized a new financial liability at amortized cost amounting to US\$62,374,000, measured at the present value of the expected redemption amount. The Company also reclassified the financial liability host and embedded derivative for series A-2 convertible redeemable preferred shares to equity. Due to the derecognition and reclassification, a loss of US\$559,000 was charged to profit or loss.

In April 2022, the condition attached in the Series A share subscription agreement has been fulfilled, as such the financial liabilities in relation to the Series A preferred shares has been reclassified from financial liabilities to equity.

APPENDIX I

ACCOUNTANT’S REPORT

The key terms of the Series A and A-2 Convertible Redeemable Preferred Shares (collectively referred to as “Preferred Shares”) at December 31, 2021 and June 30, 2022 are summarized as follows:

(a) Conversion

Pursuant to the agreement dated September 28, 2021, each Preferred Share may, at the option of the holders, be converted at any time into ordinary shares of the Company at an initial conversion ratio of 1:1 subject to adjustment for Preferred Shares conversion price.

In addition, each Preferred Share shall automatically be converted into ordinary shares of the Company based on the then-effective applicable conversion price upon:

- (i) the closing of a Qualified [REDACTED], or
- (ii) the written approval of the Preferred Shares preferred majority to convert all Preferred Shares into ordinary shares of the Company.

“Qualified [REDACTED]” shall mean an [REDACTED] (“[REDACTED]”) and commencement of [REDACTED] of the shares of the Company on [REDACTED] or another stock exchange of similar standing of the shares of the Company at the pre-[REDACTED] market capitalization that (i) implies a valuation of the Series A-2 Preferred Shares held by the investors immediately prior to the [REDACTED] no less than 100% of the aggregate purchase price paid by such investor for such Series A-2 Preferred Shares if the [REDACTED] is consummated within the next 24 months from July 20, 2021 (“Series A-2 Original Issue Date”) or (ii) is equal to or exceed US\$1,000 million if the [REDACTED] is consummated after the second anniversary of the Series A-2 Original Issue Date.

(b) Redemption

If the Company fails to complete the Qualified [REDACTED] or Qualified Trade Sale before April 27, 2025, each holder of the Preferred Shares shall have the right (the “Put Right”) to sell to Harmony Tree Limited all or a portion of the Preferred Shares held by such holder by sending a written request for exercise of its Put Right to the Company within thirty (30) business days. The purchase price of each Preferred Share shall be one hundred percent (100%) of the original issue price, plus all accrued or declared but unpaid dividends on such Preferred Share and an amount that would accrue on the purchase price at a compound interest rate of 8% per annum.

“Qualified Trade Sale” shall mean a Trade Sale, either (i) any consolidation, amalgamation or merger of the Company with or into any other Person or other corporate reorganization, in which the shareholders of the Company immediately prior to such consolidation, amalgamation, merger or reorganization, own less than fifty percent (50%) of the voting power of the Company immediately after such consolidation, merger, amalgamation or reorganization, or any transaction or series of related transactions to which the Company is a party in which in excess of fifty percent (50%) of the Company’s voting power is transferred; (ii) sale, transfer or other disposition of all or substantially all of the assets, or intellectual property of the Company and its subsidiaries; or (iii) the exclusive licensing of all or substantially all of the Company and its subsidiaries’ proprietary rights, that results in (i) a valuation of the Series A-2 Preferred Shares held by the investors immediately prior to the consummation of a Trade Sale no less than 100% of the aggregate purchase price paid by such investors for such Series A-2 Preferred Shares if the Trade Sale is consummated within the next twenty four (24) months from the date of the closing or (ii) a market capitalization of the Company that is equal to or exceed US\$1,000 million if the trade sale is consummated after the second anniversary of the Series A-2 Original Issue Date.

(c) Voting rights

Each Preferred Share has voting rights equivalent to the number of ordinary shares into which such Preferred Shares could then be convertible.

APPENDIX I

ACCOUNTANT’S REPORT

(d) Liquidation preferences

Upon the occurrence of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, the assets of the Company legally available for distribution shall be distributed among the holders of the issued and outstanding shares (on an as-converted basis) in the following order and manner:

Each holder of Preferred Shares shall be entitled to receive, on parity with each other, an amount equal to one hundred percent of the original issue price, plus all accrued or declared but unpaid dividends on such preferred share.

The remaining assets of the Company available for distribution shall be distributed ratably among all members according to the relative number of ordinary shares of the Company held by such member (treating all Preferred Shares as if they had been converted to ordinary shares of the Company immediately prior to such liquidation, dissolution or winding up of the Company).

If any holder of Preferred Shares fails to receive the amounts in full, each holder of ordinary shares of the Company (excluding the ordinary shares of the Company converted from the Preferred Shares) shall severally and jointly transfer all of the assets or cash it received from the Company.

The movements of the convertible redeemable preferred shares are set out as below:

	Financial liability at amortized cost	Bifurcated embedded derivatives	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<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	62,374	–	62,374
	<u>63,711</u>	<u>–</u>	<u>63,711</u>
At December 31, 2021	<u>63,711</u>	<u>–</u>	<u>63,711</u>
At January 1, 2022	63,711	–	63,711
Accrued interest	1,336	–	1,336
Reclassification of Series A Preferred Shares to equity	(65,047)	–	(65,047)
	<u>–</u>	<u>–</u>	<u>–</u>
At June 30, 2022	<u>–</u>	<u>–</u>	<u>–</u>

APPENDIX I

ACCOUNTANT’S REPORT

The Group adopted the equity allocation model to determine the fair value of the convertible redeemable preferred shares. Key assumptions are set as below:

	April 27, 2021	July 20, 2021	September 28, 2021
Discount rate	8.40%	8.28%	8.78%
Risk-free interest rate	0.62%	0.49%	0.69%
DLOM	24%	24%	24%
Volatility	45.53%	47.95%	51.24%

Discount rate was estimated by cost of debt as at the valuation date. The directors estimated the risk-free interest rate based on the yield of United States treasury active curves with maturity life close to the Qualified [REDACTED] timing as of valuation date. The DLOM was estimated based on the option-pricing method. Volatility was estimated based on annualized standard deviation of the daily return embedded in historical stock prices of comparable companies with a time horizon close to the expected term. Probability weight among redemption, liquidation and [REDACTED] scenarios was based on the ONM Group Ltd.’s best estimates.

30 RETIREMENT BENEFIT OBLIGATIONS

The defined benefit retirement plan of the subsidiary in Japan is an unfunded pension plans for full-time employees upon retirement or resignation. The level of benefits provided depends on the employees’ length of service. The defined benefit retirement plan is measured at present values which are determined with reference to the valuation performed by an independent qualified professional valuer. The valuation was carried out by projected unit credit method.

The amounts recognized in the consolidated balance sheets are determined as follows:

	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Present value of unfunded obligations	2,227	2,541	2,755	2,208

The movements in the retirement benefit obligations during the Track Record Period are as follows:

	Present value of obligations			
	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
Beginning of year/period	2,229	2,227	2,541	2,755
Current service cost	345	164	337	153
Interest expense	1	–	2	–
	346	164	339	153

APPENDIX I

ACCOUNTANT’S REPORT

	Present value of obligations			June 30, 2022
	December 31, 2019	December 31, 2020	December 31, 2021	
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Remeasurements:				
– (Gain)/loss from change in financial assumptions	(1)	13	(13)	(38)
– Experience (gain)/loss	(39)	121	353	(208)
	(40)	134	340	(246)
Currency translation differences	20	111	(269)	(448)
Payments from plans	(328)	(95)	(196)	(6)
At end of year/period	<u>2,227</u>	<u>2,541</u>	<u>2,755</u>	<u>2,208</u>

The significant actuarial assumptions were as follows:

	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
Discount rate (per annum)	0.08%	0.18%	0.16%	0.38%
Turnover rate (average)	<u>12.81%</u>	<u>15.38%</u>	<u>15.49%</u>	<u>15.49%</u>

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the territory.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
At December 31, 2019			
Discount rate	0.2% or 0.4%	Decrease by 3.2% or 6.3%	Increase by 3.2% or 6.3%
At December 31, 2020			
Discount rate	0.3% or 0.5%	Decrease by 2.7% or 4.4%	Increase by 2.8% or 4.8%
At December 31, 2021			
Discount rate	0.2% or 0.3%	Decrease by 1.5% or 2.2%	Increase by 1.5% or 2.3%
At June 30, 2022			
Discount rate	0.2% or 0.6%	Decrease by 1.5% or 4.3%	Increase by 1.5% or 4.6%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the consolidated balance sheets.

APPENDIX I

ACCOUNTANT’S REPORT

The sensitivity of other unobservable inputs are not expected to have significant impact on the defined benefit obligation as at December 31, 2019, 2020 and 2021 and June 30, 2022.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

Expected contributions to the defined benefit scheme by the Group for the twelve months ending June 30, 2023 are approximately US\$244,000.

The weighted average duration of the defined benefit obligation is 8.5 years, 9 years, 7.7 years and 7.6 years for each of the years ended December 31, 2019, 2020 and 2021 and six months ended June 30, 2022, respectively. The expected maturity analysis of undiscounted defined benefit obligation is as follows:

	Within 1 year US\$'000	Between 1 and 2 years US\$'000	Between 2 and 5 years US\$'000	Over 5 years US\$'000
At December 31, 2019				
Defined benefit obligation	245	143	666	4,728
At December 31, 2020				
Defined benefit obligation	312	180	730	4,554
At December 31, 2021				
Defined benefit obligation	256	324	867	3,608
At June 30, 2022				
Defined benefit obligation	<u>220</u>	<u>221</u>	<u>540</u>	<u>1,292</u>

31 LOANS FROM RELATED COMPANIES

As at December 31, 2020, the loan from Belinifer Corporation, a related company is secured by the ownership and assets of all subsidiaries and bears interest at 1% per annum. The repayment of the loan would not be demanded within 12 months from the end of the reporting period.

On February 16, 2021, the loan from Belinifer Corporation was assigned to Harmony Tree Limited. The loan from Harmony Tree Limited is unsecured and interest free. The loan has been settled during the year ended December 31, 2021.

As at December 31, 2020, the loan from Neich Capital Company Limited, a related company was unsecured and bears interest at 5% per annum. The repayment of the loan would not be demanded within 12 months from the end of the reporting period. The loan has been settled during the year ended December 31, 2021.

The carrying amounts of loans are denominated in US\$ and approximate their fair values.

32 TRADE PAYABLES

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

The carrying amounts of trade payables approximate their fair values.

Credit terms granted by creditors generally range from 30 to 90 days.

APPENDIX I

ACCOUNTANT’S REPORT

As at December 31, 2019, 2020 and 2021 and June 30, 2022, the ageing analysis of the trade payables based on invoice date is as follows:

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

Trade payables are denominated in the following currencies:

	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
US\$	2,141	634	1,536	3,141
EUR	870	501	362	347
RMB	331	180	243	335
Other currencies	164	49	33	52
	<u>3,506</u>	<u>1,364</u>	<u>2,174</u>	<u>3,875</u>

33 ACCRUALS AND OTHER PAYABLES

The Group

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

The carrying amounts of accruals and other payables approximate their fair values and are denominated in the following currencies:

	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
US\$	3,041	3,053	2,031	4,041
EUR	4,532	3,142	2,438	2,144
RMB	3,166	2,667	3,851	4,337
JPY	1,363	1,537	1,460	1,280
HK\$	421	955	1,394	1,673
Other currencies	500	1,407	692	742
	<u>13,023</u>	<u>12,761</u>	<u>11,866</u>	<u>14,217</u>

APPENDIX I

ACCOUNTANT’S REPORT

The Company

	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>
Accrued [REDACTED]	<u>[REDACTED]</u>	<u>[REDACTED]</u>

The carrying amounts of accruals approximate their fair values and are denominated in the following currencies:

	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>
US\$	326	1,363
EUR	9	39
RMB	10	88
JPY	3	9
HK\$	981	970
	<u>1,329</u>	<u>2,469</u>

34 BANK BORROWINGS

At December 31, 2019 and 2020, the Group’s bank borrowings were repayable within 1 year.

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 each of the years ended December 31, 2019, 2020 and 2021 and six months ended June 30, 2022, respectively.

For the years ended December 31, 2019 and 2020, these short-term bank borrowings were secured by: (1) certain properties held by the directors; (2) corporate guarantee given by a related company and (3) personal guarantee given by a Controlling Shareholder and a related party. The controlling shareholder of the related company is also one of the Controlling Shareholders of the Group. These guarantees have been released during the year ended December 31, 2021.

For the six months ended June 30, 2022, the Group has banking facilities from two financial institutions amounting to US\$15,000,000 and US\$30,000,000 respectively. Both facilities were secured by (i) the corporate guarantee given by the Company, and (ii) personal guarantee given by the Controlling Shareholders. The US\$30,000,000 banking facility was additionally secured by the corporate guarantee given by OrbusNeich Medical Group Limited. Further, the US\$30,000,000 banking facility required the Group to maintain a US\$15,000,000 deposit as comfort cash with the relevant bank (Note 25). Upon [REDACTED] of the Company, the corporate guarantee given by OrbusNeich Medical Group Limited and the personal guarantee given by the Controlling Shareholders will be released.

The carrying amounts of the Group’s short-term bank borrowings approximate their fair value and are denominated in the following currencies:

	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
HK\$	38,462	38,462	–	–
RMB	–	1,436	–	–
	<u>38,462</u>	<u>39,898</u>	<u>–</u>	<u>–</u>

APPENDIX I

ACCOUNTANT’S REPORT

The Group has the following undrawn borrowing facilities at the end of the reporting period:

	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Total available and undrawn facilities	<u>7,840</u>	<u>13,566</u>	<u>109</u>	<u>45,000</u>

35 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Cash generated from operations:

	Year ended December 31,			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>				
Profit/(loss) before income tax	7,507	7,255	(1,318)	4,979	9,689
Adjustments for:					
Depreciation of property, plant and equipment	2,388	2,474	2,255	1,180	953
Depreciation of right-of-use assets	1,585	1,441	1,288	627	755
Amortization of intangible assets	3	176	476	227	254
Losses on disposals of property, plant and equipment	48	3	83	24	–
Written off of property, plant and equipment	–	–	–	–	311
Gain on lease modification	(2)	–	–	–	(2)
Losses on disposals of financial assets at fair value through profit or loss	41	37	22	9	5
Gain on disposal of subsidiaries	–	(10)	–	–	–
Realization of accumulated exchange differences upon dissolution of subsidiaries	–	17	(8)	(8)	–
Net unrealized foreign exchange (gain)/losses	(179)	(1,682)	480	(231)	1,391
Provision for inventories	48	16	256	19	837
Net impairment losses/(reversal of impairment losses) on financial assets	1,407	(931)	(109)	(158)	402
Pension costs – defined benefit plans	346	164	337	172	153
Share options granted to directors and employees	–	–	1,339	670	368

APPENDIX I

ACCOUNTANT’S REPORT

	Year ended December 31,			Six months ended June 30,	
	2019 US\$'000	2020 US\$'000	2021 US\$'000	2021 US\$'000	2022 US\$'000
				(Unaudited)	
Unrealized (gains)/losses of fair value change in financial assets at fair value through profit or loss	(60)	76	29	33	1,347
Interest income	(21)	(12)	(12)	(6)	(249)
Interest expense	503	1,405	5,607	1,048	1,407
Loss on derecognition of financial liability charged to profit or loss	–	–	559	–	–
Fair value loss of convertible redeemable preferred shares	–	–	14,397	6,030	–
Share of losses of investment in a joint venture	–	46	207	149	71
	<u>13,614</u>	<u>10,475</u>	<u>25,888</u>	<u>14,764</u>	<u>17,692</u>
Changes in working capital:					
Increase in inventories	(1,264)	(1,931)	(1,587)	(1,254)	(1,225)
(Increase)/decrease in trade receivables	(3,156)	8,637	(1,718)	403	(5,727)
Decrease/(increase) in deposits, prepayments and other receivables	2,498	(193)	(776)	(614)	(1,055)
(Decrease)/increase in trade payables	(928)	(2,188)	842	2,183	1,727
(Decrease)/increase in accruals and other payables	(6,487)	(1,230)	(514)	(781)	2,578
Decrease in retirement benefit obligations	(328)	(95)	(196)	(34)	(6)
(Increase)/decrease in amounts due from/to joint ventures	–	(36)	79	(164)	118
(Increase)/decrease in amounts due from related companies	–	(149)	326	326	–
	<u>–</u>	<u>(149)</u>	<u>326</u>	<u>326</u>	<u>–</u>
Cash generated from operations	<u>3,949</u>	<u>13,290</u>	<u>22,344</u>	<u>14,829</u>	<u>14,102</u>

APPENDIX I

ACCOUNTANT’S REPORT

(b) In the consolidated statements of cash flows, proceeds from disposals of property, plant, and equipment comprise:

	Year ended December 31,			Six months ended	
	2019	2020	2021	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Net book amount (Note 14)	141	116	300	40	99
Non-cash transaction:					
transfer of motor vehicle to a related company	(48)	–	–	–	–
Losses on disposals of property, plant and equipment (Note 7)	(48)	(3)	(83)	(24)	–
Proceeds from disposals of property, plant and equipment	45	113	217	16	99

(c) In the consolidated statements of cash flows, proceeds from disposals of financial assets at fair value through profit or loss comprise:

	Year ended December 31,			Six months ended	
	2019	2020	2021	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
				(Unaudited)	
Net book amount	333	194	166	43	16
Losses on disposals of financial assets at fair value through profit or loss (Note 7)	(41)	(37)	(22)	(9)	(5)
Proceeds from disposals of financial assets at fair value through profit or loss	292	157	144	34	11

(d) Significant non-cash transactions

During the Track Record Period, the Group had the following non-cash transactions:

- (i) During the year ended December 31, 2020, ONM BVI waived the balances due from ONM Group Ltd. and its subsidiaries of US\$178,987,000 as capital contribution to ONM Group Ltd..
- (ii) During the year ended December 31, 2020, pursuant to the Assignment of Shareholder Loan agreement dated July 31, 2020, the shareholder’s loan from Belinifer Corporation amounting to US\$5,168,000 was transferred from ONM BVI to Cosmic Ascent Limited and was partly offset by the current account with Belinifer of US\$177,000.
- (iii) During the year ended December 31, 2020, there was modification to the lease for office premises and the Group derecognized right-of use assets and lease liabilities of US\$216,000.

APPENDIX I

ACCOUNTANT’S REPORT

- (iv) During the year ended December 31, 2021, there was modification to the lease for office premises and the Group recognized right-of use assets and lease liabilities of US\$1,751,000.
- (v) During the six months ended June 30, 2022, there was modification to the lease for office premises and the Group recognized right-of-use assets of US\$724,000 and lease liabilities of US\$722,000, respectively.

(e) Analysis of changes in financing activities during the Track Record Period:

	Liabilities from financing activities				
	Bank borrowings <i>US\$'000</i>	Amount due to a related company <i>US\$'000</i>	Loans from related companies <i>US\$'000</i>	Convertible redeemable preferred shares <i>US\$'000</i>	Lease liabilities <i>US\$'000</i>
At January 1, 2019	–	223,242	–	–	3,889
Lease addition	–	–	–	–	378
Lease disposal	–	–	–	–	(20)
Cash inflow from financing activities	38,462	–	–	–	–
Cash outflow from financing activities	–	(35,259)	–	–	(1,497)
Accrued interest	381	–	–	–	120
Interest paid	(381)	–	–	–	(120)
Foreign exchange adjustments	–	–	–	–	5
At December 31, 2019	<u>38,462</u>	<u>187,983</u>	<u>–</u>	<u>–</u>	<u>2,755</u>
At January 1, 2020	38,462	187,983	–	–	2,755
Lease addition	–	–	–	–	278
Lease disposal	–	–	–	–	(3)
Acquisition of subsidiary (<i>Note 38</i>)	334	–	–	–	–
Cash inflow from financing activities	4,513	–	5,128	–	–
Cash outflow from financing activities	(3,411)	(4,005)	–	–	(1,363)
Accrued interest	1,258	–	67	–	77
Interest paid	(1,258)	–	–	–	(77)
Foreign exchange adjustments	–	–	–	–	28
Other non-cash movements	–	(183,978)	4,991	–	(216)
At December 31, 2020	<u>39,898</u>	<u>–</u>	<u>10,186</u>	<u>–</u>	<u>1,479</u>
At January 1, 2021	39,898	–	10,186	–	1,479
Lease addition	–	–	–	–	2,119
Cash inflow from financing activities	3,057	–	230	198,965	–
Cash outflow from financing activities	(42,955)	–	(10,416)	–	(1,297)
Accrued interest	525	–	151	4,853	76
Interest paid	(525)	–	(151)	–	(76)
Change in fair value	–	–	–	14,397	–
Foreign exchange adjustments	–	–	–	–	(70)
Other non-cash movements	–	–	–	(154,504)	1,751
At December 31, 2021	<u>–</u>	<u>–</u>	<u>–</u>	<u>63,711</u>	<u>3,982</u>

APPENDIX I

ACCOUNTANT’S REPORT

	Liabilities from financing activities				
	Bank borrowings <i>US\$'000</i>	Amount due to a related company <i>US\$'000</i>	Loans from related companies <i>US\$'000</i>	Convertible redeemable preferred shares <i>US\$'000</i>	Lease liabilities <i>US\$'000</i>
At January 1, 2022	–	–	–	63,711	3,982
Lease addition	–	–	–	–	141
Cash inflow from financing activities	5,000	–	–	–	–
Cash outflow from financing activities	(5,000)	–	–	–	(698)
Accrued interest	11	–	–	1,336	57
Interest paid	(11)	–	–	–	(57)
Foreign exchange adjustments	–	–	–	–	(94)
Other non-cash movements	–	–	–	(65,047)	722
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>4,053</u>
At June 30, 2022	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>4,053</u>
(Unaudited)					
At January 1, 2021	39,898	–	10,186	–	1,479
Lease addition	–	–	–	–	1,175
Cash inflow from financing activities	3,057	–	230	34,681	–
Cash outflow from financing activities	(7,077)	–	(5,022)	–	(707)
Accrued interest	403	–	128	476	40
Interest paid	(403)	–	–	–	(40)
Foreign exchange adjustments	–	–	–	–	(39)
Other non-cash movements	–	–	–	6,030	893
	<u>35,878</u>	<u>–</u>	<u>5,522</u>	<u>41,187</u>	<u>2,801</u>
At June 30, 2021	<u>35,878</u>	<u>–</u>	<u>5,522</u>	<u>41,187</u>	<u>2,801</u>

36 COMMITMENTS

Capital expenditures contracted for at the end of the year/period but not yet incurred are as follows:

	December 31, 2019 <i>US\$'000</i>	December 31, 2020 <i>US\$'000</i>	December 31, 2021 <i>US\$'000</i>	June 30, 2022 <i>US\$'000</i>
Contracted but not provided for:				
Property, plant and equipment	–	–	74	210
	<u>–</u>	<u>–</u>	<u>74</u>	<u>210</u>

37 CONTINGENT LIABILITIES

As at December 31, 2019, OrbusNeich Medical Company Limited (業聚醫療有限公司), a subsidiary of the Company provided ONM BVI with cross guarantees up to approximately US\$3,846,000 in respect of a banking facility granted to the subsidiary and ONM BVI. The facility was also secured by personal guarantee given by a director of the Company and a related party; and pledge of properties held by the director.

No facility was utilized by ONM BVI as at December 31, 2019. In the opinion of the directors of the Company, the fair values of these financial guarantees were not significant at initial recognition as the directors considered the possibilities of default by the related company were remote. The guarantee was released during the year ended December 31, 2020.

APPENDIX I

ACCOUNTANT’S REPORT

As at December 31, 2020, OrbusNeich Medical Company Limited (業聚醫療有限公司), a subsidiary of the Company provides Neich Capital Company Limited, a related company, with cross guarantees up to approximately US\$3,846,000 in respect of a banking facility granted to the subsidiary and Neich Capital Company Limited. The facility was also secured by personal guarantee given by a director of the Company and a related party; and pledge of properties held by the director.

No facility was utilized by Neich Capital Company Limited as at December 31, 2020. In the opinion of the director of the Company, the fair values of these financial guarantees were not significant at initial recognition as the director considered the possibilities of default by the related company were remote. These guarantees have been released during the year ended December 31, 2021.

38 BUSINESS COMBINATION

In August 2020, the Group acquired 100% of the issued share capital of OrbusNeich (Switzerland) AG from independent third parties. The acquisition will increase the Group’s market share in this industry and complement the Group’s existing medical trading.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	<i>US\$’000</i>
Consideration paid as at acquisition date	
Cash	3,320
Consideration payable	699
	4,019
Recognized amounts of identifiable assets acquired, liabilities assumed	
Property, plant and equipment	4
Intangible assets: customer relationship	1,176
Inventories	471
Trade receivables	388
Deposits, prepayments and other receivables	47
Cash and cash equivalents	1,080
Accruals and other payables	(336)
Current income tax liabilities	(226)
Bank borrowings	(334)
	2,270
Total identifiable net assets	2,270
Goodwill	1,749
	4,019
	4,019
Net cash outflow arising from the acquisitions	
Cash and cash equivalents acquired	1,080
Less: cash consideration	(3,320)
	(2,240)
	(2,240)

APPENDIX I

ACCOUNTANT’S REPORT

The goodwill was attributable to synergies expected to arise from the Group’s acquisition of the new subsidiary. The acquired business contributed approximately US\$1,324,000 and US\$179,000 of revenues and net profit, respectively to the Group for the year ended December 31, 2020.

If the acquisition had occurred on January 1, 2020, the consolidated revenue and profit for the year ended December 31, 2020 would have been US\$3,419,000 and US\$578,000 respectively.

Acquisition related costs were not significant and have been charged to general and administrative expenses in the consolidated statements of profit or loss for the year ended December 31, 2020.

39 RELATED PARTY TRANSACTIONS

Parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group in making financial and operating decisions. Related parties may be individuals (being members of key management personnel, significant shareholder and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

Name of related parties	Relationship with the Company
Harmony Tree Limited	Ultimate holding company
OrbusNeich P+F Company Limited	A joint venture
OrbusNeich P&F (Hong Kong) Company Limited	A subsidiary of the joint venture
Belinfer Corporation	Controlled by the Controlling Shareholder
OrbusNeich Medical Company Limited (“ONM BVI”)	Controlled by the Controlling Shareholder
Neich Capital Company Limited	Controlled by the Controlling Shareholder
Neich Holdings Limited	Controlled by the Controlling Shareholder
A distributor of the Group	50% owned by a cousin of Mr. David Chien, one of the Controlling Shareholders

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during each of the years ended December 31, 2019, 2020 and 2021 and six months ended June 30, 2021 and 2022, and balances arising from related party transactions as at December 31, 2019, 2020 and 2021 and June 30, 2022.

(a) Transactions with related parties

	Year ended December 31,			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>	<i>US\$’000</i>
	<i>(Unaudited)</i>				
Sales of goods to a related party:					
– A distributor of the Group <i>(Note (i))</i>	8,269	5,012	940	940	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Service fee received from a related party:					
– OrbusNeich P&F (Hong Kong) Company Limited <i>(Note (i))</i>	–	29	125	61	86
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

APPENDIX I

ACCOUNTANT’S REPORT

	Year ended December 31,			Six months ended June 30,	
	2019 US\$'000	2020 US\$'000	2021 US\$'000	2021 US\$'000	2022 US\$'000
Transfer of motor vehicle to a related company: – Belinifer Corporation (Note (ii))	48	–	–	–	–
Short-term lease charged by a related company – Neich Holdings Limited (Note (i))	100	100	45	50	–
Interest expense on loans from related companies – Belinifer Corporation (Note (iii))	–	21	–	–	–
– Neich Capital Company Limited (Note (iii))	–	46	151	128	–
	–	67	151	128	–

- (i) The transactions were carried out at rate mutually-agreed between the related parties involved in the transactions and the Group.
- (ii) The transaction was entered into at terms agreed between parties involved and the consideration was equal to net book amount of the motor vehicle on the date of transfer.
- (iii) The terms of the loans from related companies are set out in Note 31.

(b) Year-end balances with related parties

The Group

	December 31, 2019 US\$'000	December 31, 2020 US\$'000	December 31, 2021 US\$'000	June 30, 2022 US\$'000
Amounts due from joint ventures				
– OrbusNeich P&F (Hong Kong) Company Limited (Note (i))	–	81	11	–
– OrbusNeich P&F (Hong Kong) Company Limited (Note (ii))	–	–	–	22
– OrbusNeich P+F Company Limited (Note (ii))	–	9	–	–
	–	90	11	22

APPENDIX I

ACCOUNTANT’S REPORT

	December 31, 2019 US\$'000	December 31, 2020 US\$'000	December 31, 2021 US\$'000	June 30, 2022 US\$'000
Advance to a joint venture – OrbusNeich P+F Company Limited (<i>Note 21</i>)	–	–	3,044	3,044
Amounts due from related companies (<i>Note (ii)</i>)				
– Belinifer Corporation	177	–	–	–
– OrbusNeich Medical Company Limited (BVI)	–	326	–	–
	<u>177</u>	<u>326</u>	<u>–</u>	<u>–</u>
Loans from related companies (<i>Note (iii)</i>)				
– Belinifer Corporation	–	5,012	–	–
– Neich Capital Company Limited	–	5,174	–	–
	<u>–</u>	<u>10,186</u>	<u>–</u>	<u>–</u>
Amount due to a related company (<i>Note (iv)</i>)				
– OrbusNeich Medical Company Limited (BVI)	<u>187,983</u>	<u>–</u>	<u>–</u>	<u>–</u>
Amount due to a joint venture – OrbusNeich P&F (Hong Kong) Company Limited (<i>Note (i)</i>)	<u>–</u>	<u>–</u>	<u>–</u>	<u>129</u>
Trade receivable from a related party (<i>Note (v)</i>)				
– A distributor of the Group	<u>4,400</u>	<u>2,170</u>	<u>–</u>	<u>–</u>

- (i) The amount due from/to a joint venture was trade in nature, unsecured, interest free and repayable on demand. The carrying amounts approximate their fair values and are denominated in US\$ and Singapore dollar.
- (ii) The amounts due from a joint venture and related companies were non-trade in nature, unsecured, interest-free and repayable on demand. The carrying amounts approximate their fair values and are denominated in US\$.
- (iii) The loans from related companies were non-trade in nature and the terms of the loans are set out in Note 31.
- (iv) The amount due to a related company was non-trade in nature, unsecured, interest-free and repayable on demand, except for the balances of US\$99,790,000 in December 31, 2019, which would not be demanded within 12 months from the end of the reporting period. The carrying amounts approximate their fair values and are denominated in US\$.
- (v) The balances of trade receivables from a related party were unsecured, trade in nature, interest free and are denominated in US\$.

APPENDIX I

ACCOUNTANT’S REPORT

The Company

	December 31, 2021	June 30, 2022
	<i>US\$’000</i>	<i>US\$’000</i>
Amounts due from subsidiaries		
– OrbusNeich Medical Group Limited	64,544	64,451
– OrbusNeich Medical Company Limited (業聚醫療有限公司)	–	46,520
	<u>64,544</u>	<u>110,971</u>
Amount due to a subsidiary		
– OrbusNeich Medical Company Limited (業聚醫療有限公司)	<u>32</u>	<u>–</u>

The amounts due from/to subsidiaries as at December 31, 2021 and June 30, 2022 was non-trade in nature, unsecured, interest-free and repayable on demand. The carrying amounts approximate their fair values and are denominated in US\$.

(c) Key management compensation

Key management includes the directors and certain member of the management. The compensation paid or payable to key management for employee services is shown below:

	Year ended December 31,			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>
Salaries, wages and allowances	3,866	2,877	3,202	1,612	1,890
Share-based payment expense	–	–	155	87	77
Pension costs – defined contribution plans	37	39	45	23	23
Pension costs – defined benefit plans	11	11	11	5	5
Other long-term benefits	17	18	19	10	9
	<u>3,931</u>	<u>2,945</u>	<u>3,432</u>	<u>1,737</u>	<u>2,004</u>

(d) For the years ended December 31, 2019 and 2020, these short-term bank borrowings were secured by certain assets held by the directors and corporate guarantee given by a related company and personal guarantee given by a Controlling Shareholder and a related party. The Controlling Shareholder of the related company is also a Controlling Shareholder of the Group. These guarantees have been released during the year ended December 31, 2021.

For the six months ended June 30, 2022, the Group has banking facilities from two financial institutions amounting to US\$15,000,000 and US\$30,000,000 respectively. Both facilities were secured by (i) the corporate guarantee given by the Company, and (ii) a personal guarantee given by the Controlling Shareholders. The US\$30,000,000 banking facility was additionally secured by the corporate guarantee given by OrbusNeich Medical Group Limited. Further, the US\$30,000,000 banking facility required the Group to maintain a US\$15,000,000 deposit as comfort cash with the relevant bank (Note 25). Upon [REDACTED] of the Company, the corporate guarantee given by OrbusNeich Medical Group Limited and the personal guarantee given by the Controlling Shareholders will be released.

APPENDIX I

ACCOUNTANT’S REPORT

40 FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	December 31, 2019	December 31, 2020	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Financial assets				
Financial assets at fair value through profit or loss	1,829	2,048	2,041	20,527
Financial assets at amortized cost				
– Trade receivables	32,609	26,316	26,804	29,700
– Deposits and other receivables	1,206	1,391	1,663	1,697
– Advance to a joint venture	–	–	3,044	–
– Amounts due from joint ventures	–	90	11	22
– Amounts due from related companies	177	326	–	–
– Pledged bank deposit	–	–	–	15,000
– Short-term bank deposit	–	–	–	20,000
– Cash and cash equivalents	13,631	15,112	175,886	131,619
	47,623	43,235	207,408	198,038
	<u>49,452</u>	<u>45,283</u>	<u>209,449</u>	<u>218,565</u>
Financial liabilities				
Financial liabilities at amortized cost				
– Trade payables	3,506	1,364	2,174	3,875
– Accruals and other payables	10,897	11,081	9,877	11,391
– Lease liabilities	2,755	1,479	3,982	4,053
– Loans from related companies	–	10,186	–	–
– Amount due to a related company	187,983	–	–	–
– Amount due to a joint venture	–	–	–	129
– Bank borrowings	38,462	39,898	–	–
– Convertible redeemable preferred shares	–	–	63,711	–
	243,603	64,008	79,744	19,448
	<u>243,603</u>	<u>64,008</u>	<u>79,744</u>	<u>19,448</u>

APPENDIX I

ACCOUNTANT’S REPORT

The Company holds the following financial instruments:

	December 31, 2021	June 30, 2022
	<i>US\$'000</i>	<i>US\$'000</i>
Financial assets		
Financial assets at amortized cost		
– Other receivables	–	118
– Amounts due from subsidiaries	64,544	110,971
– Short-term bank deposit	–	20,000
– Cash and cash equivalents	149,104	60,831
	<u>213,648</u>	<u>191,920</u>
Financial liabilities		
Financial liabilities at amortized cost		
– Convertible redeemable preferred shares	63,711	–
– Accruals and other payables	1,329	2,469
– Amount due to a subsidiary	32	–
	<u>65,072</u>	<u>2,469</u>

41 EVENTS AFTER THE REPORTING PERIOD

[As of the date of this report, there is no material subsequent event occurred during the period from June 30, 2022.]

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to June 30, 2022 and up to the date of this report.