BRONCUS

堃博医疗控股有限公司

Broncus Holding Corporation

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2216

2022

Annual Report

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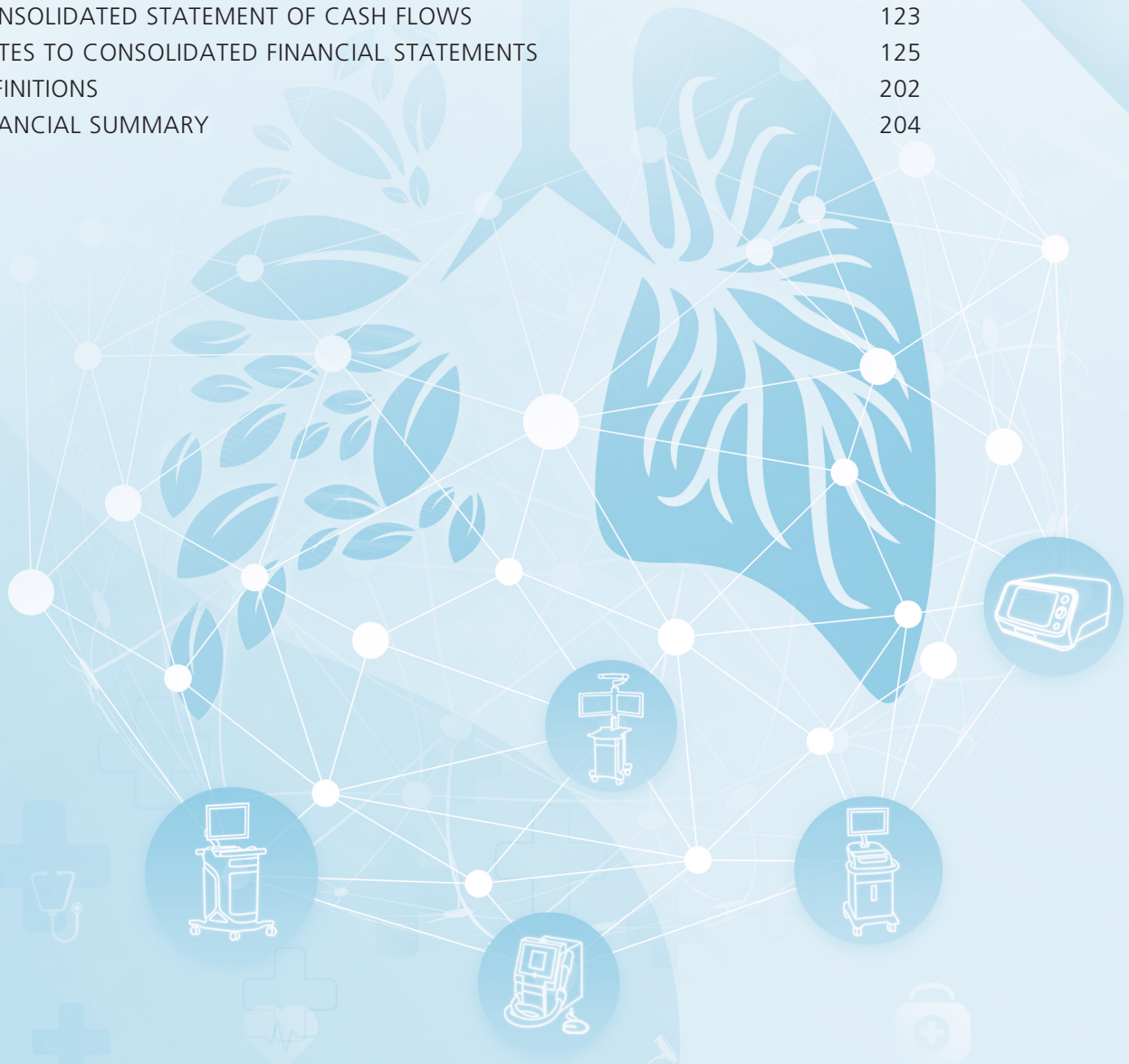

CORPORATE INFORMATION

COMPANY NAME

Broncus Holding Corporation (堃博医疗控股有限公司)

DIRECTORS

Executive Directors

Mr. Guowei Zhan *(Chief Executive Officer)*
Mr. Hong Xu

Non-executive Directors

Mr. Michael Yi Wei Zhao *(Chairman)*
Mr. Zhenjun Zi
Mr. Ao Zhang

Independent Non-executive Directors

Dr. Pok Man Kam
Professor Joseph Wan Yee Lau
Dr. Jian Ji
(resigned with effect from August 30, 2022)
Ms. Yee Sin Wong
(appointed with effect from August 30, 2022)

AUDIT COMMITTEE

Dr. Pok Man Kam *(Chairman)*
Professor Joseph Wan Yee Lau
Dr. Jian Ji
(resigned with effect from August 30, 2022)
Ms. Yee Sin Wong
(appointed with effect from August 30, 2022)

NOMINATION COMMITTEE

Mr. Michael Yi Wei Zhao *(Chairman)*
Professor Joseph Wan Yee Lau
Dr. Jian Ji
(resigned with effect from August 30, 2022)
Ms. Yee Sin Wong
(appointed with effect from August 30, 2022)

REMUNERATION COMMITTEE

Dr. Jian Ji *(Chairman)*
(resigned with effect from August 30, 2022)
Ms. Yee Sin Wong *(Chairwoman)*
(appointed with effect from August 30, 2022)
Mr. Michael Yi Wei Zhao
Dr. Pok Man Kam

COMPANY SECRETARY

Mr. Wen Hao Wang
(resigned with effect from March 28, 2022)
Ms. Jeanie Lau (ACG, HKACG)
(resigned with effect from August 30, 2022)
Ms. Yin Kwan Ho (ACG, HKACG)
(appointed with effect from August 30, 2022)

AUTHORIZED REPRESENTATIVES

Mr. Michael Yi Wei Zhao
Ms. Jeanie Lau
(resigned with effect from August 30, 2022)
Ms. Yin Kwan Ho
(appointed with effect from August 30, 2022)

AUDITOR

Ernst & Young
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Registered Public Interest Entity Auditor
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PO Box 1093, Boundary Hall
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Shops 1712–1716
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183 Queen's Road East, Wanchai
Hong Kong

STOCK CODE

2216

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Hu Shu Road South Sub-Branch
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COMPANY WEBSITE

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FINANCIAL HIGHLIGHTS

	Year ended December 31, 2022 USD'000	Year ended December 31, 2021 USD'000	Year-to-year change
Revenue	**9,413**	10,891	-13.57%
Revenue from sale of medical devices/consumables and others	**9,413**	8,739	
Revenue from licensing fees	**–**	2,152	
Gross Profit	**7,315**	8,742	-16.32%
Loss for the year	**(28,036)**	(236,178)	-88.13%
Add:			
Changes in fair value of convertible redeemable preferred shares	**–**	198,874	-100.00%
Share awards	**1,123**	9,011	-87.54%
Listing expenses	**–**	4,639	-100.00%
Non-IFRS adjusted net loss for the year(1)	**(26,913)**	(23,654)	13.78%

(1) Please refer to section headed "Non-IFRS Measures" in this report for more details.

CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2022, despite the impact of the pandemic, the Company still ensured the orderly production and business activities. The year 2022 is a crucial year for the creation of the "Broncus Scheme" of innovative interventional diagnosis and treatment of lung diseases, with years of efforts of Broncus. We maintained a leading position in the market, and at the same time continuously strengthened our independent research and development capabilities, so as to continuously inject new momentum into the development of the Company.

The pandemic, air pollution and aging population led to increased public awareness of lung diseases. Consequently, more and more doctors and patients recognized and accepted the precise interventional therapy of lung diseases. Broncus focuses on the huge market of precise interventional diagnosis and treatment of lung diseases with a huge unsatisfied clinical demand. At present, we have 13 products commercialized and sold in 33 countries and regions, including the United States, the United Kingdom, Germany, France, Japan and other global mainstream markets. In addition, more than five products for the treatment of lung diseases such as lung cancer and COPD are at different stages of product development and clinical trials.

In 2022, due to the "dynamic zero Covid" policy and the peak of the pandemic, the clinical work of hospitals was limited to pandemic prevention, especially in the respiratory department and the thoracic surgery department. Despite such influence, hospitals had greater intention to purchase lung navigation platforms. Many hospitals in China put navigation platforms out to tender and finally purchased navigation platforms. With excellent clinical performance, a hierarchical pricing strategy, a strong internal marketing team, and an external distributor team, we had approximately 40% of the market, ranking first. Meanwhile, our core product, InterVapor Thermal Vapor Treatment System, was commercialized in China in March 2022. It was clinically applied in nearly 20 hospitals in more than 10 provinces/cities. Specifically, there was a price of the thermal vapor treatment catheter for online bidding and tendering in more than 14 provinces/cities.

Based on the navigation-diagnosis-treatment "three-in-one" platform for interventional diagnosis and treatment of lung diseases, in addition to a focus on further exploration of existing marketed products, we also continuously promoted the development, clinical study and market access of other therapeutic products on the pipeline, to strengthen the leading edge of "Broncus Scheme" in the treatment of lung diseases.

In terms of COPD treatment, the enrollment of a total of 9 patients for the first-in-man (FIM) clinical trial for our innovative Targeted Lung Denervation (TLD) radiofrequency ablation system was completed in July 2022. In November 2022, the kick-off meeting for the multi-center pre-marketing clinical trial investigator protocol was successfully held. In February 2023, the product passed the ethical review by the first research unit, West China Hospital of Sichuan University, and the registered clinical trial of the product was officially started. The product is the first TLD system with indigenous innovation in China, which provides a safe and effective interventional therapy for patients with acute exacerbation of COPD, achieving the long-term efficacy of drugs with the same mechanism. With TLD and InterVapor, Broncus also becomes the only company in the world to cover all patients with COPD, in addition to the best treatment with drugs.

In terms of the treatment of lung cancer, smooth progress was made in our RF-II, the only radiofrequency ablation system for lung cancer in the world. The collection of data for main trial endpoints was completed for the registered clinical trial of the product. The clinical research results of its main endpoints are being evaluated. The clinical trial report is expected to be completed in the second quarter of 2023.

CHAIRMAN'S STATEMENT

Broncus has been deeply engaged in interventional therapy equipment for lung diseases for many years. In October 2022, our first achievement in drug-device combination, Mist Fountain, was approved for commercialization in China. Mist Fountain micro-catheter is simple to operate, easy to learn, and can be widely used. It can be applied to many diseases in the respiratory department, oncology department, infection department, surgery and other departments. In the future, the Company will cooperate with clinical experts and biopharmaceutical enterprises to promote, amongst others, the possible application of the Nebulizing Micro-catheter in the anesthesia of bronchoscopy surgery, tuberculosis treatment, targeted drug delivery for oncology. In addition, the Company will continue to explore possible usage scenarios of the Product to cover a wider range of lung disease treatments.

In 2023, a year full of opportunities and challenges, we will continue to strengthen corporate governance, accelerate the research and development process, deepen market penetration, reduce costs and increase efficiency, and promote cooperation with the world's top business partners, and further strengthen the "Broncus Scheme", so as to consolidate our global leading strength in interventional diagnosis and treatment of lung diseases, and vigorously facilitate growth strategies of the Company.

Sincerely,

ZHAO Michael Yi Wei
Chairman

Hong Kong, March 29, 2023

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Facing the global prevalence of COPD and lung cancer that has been propelled by aging population, air pollution and smoking habit, we see a huge market need for minimally invasive solutions to treat lung diseases. According to Frost & Sullivan, in 2022, there were 233.6 million cases of chronic obstructive pulmonary disease in the world and 107 million cases in China, which are expected to increase to 258.4 million and 109.6 million by 2025, respectively. On November 16, 2022, China COPD Care Conference was held in Beijing, which published the Annual Report of the National Center for Respiratory Medicine on COPD and information on the major COPD-affected areas in 2022. In terms of incidence, the prevalence rate of people over 40 years old reached 13.7%, and that of people over 70 years old reached as high as 30%. According to Frost & Sullivan, among the COPD patients, 27.0% are at severe or extreme severe stages in China, who would face a mortality rate of 54.0% within five years without proper treatment. Therefore, the whole population of COPD patients, especially patients in severe and extremely severe conditions, is in great need of effective COPD therapeutic solutions.

Global lung cancer incidence reached approximately 2.26 million people in 2020 and is expected to further increase to 2.5 million by 2025. China has the highest incidence of lung cancer in the world with a lung cancer population accounting for 41.9% of that of global while the overall Chinese population accounts for 18.2% of the global population. In China, the number of new lung cancer patients reached approximately 0.9 million in 2020 and is expected to further increase to more than 1.0 million by 2025. Among these patients, over half of them are diagnosed with the cancer already at late stages at first diagnosis with a five-year survival rate as low as 12.6% for stage III patients and 2.9% for stage IV patients, according to Frost & Sullivan. Early diagnosis and treatment is an effective way to improve the overall survival rate of lung cancer patients. Patients can effectively receive an early diagnosis, and safe and effective treatment solutions at an early stage to achieve a higher survival rate.

BUSINESS REVIEW

Founded in 2012, we are a pioneer medical device company in the field of interventional pulmonology, providing innovative lung solutions in China and globally. Based on the proprietary whole lung access navigation technology, we have developed an integrated interventional pulmonology platform including navigation, diagnosis and treatment, and improved the diagnosis and treatment effect of lung cancer and COPD through a series of lung disease diagnosis and treatment product lines, thus addressing the pain points of the existing diagnosis and treatment paradigms and significant unmet medical needs for lung diseases.

As of December 31, 2022, we had 18 products and major product candidates under various stages. Our core products are the InterVapor® and RF-II. InterVapor® is the world's first and only Thermal Vapor Treatment System to treat lung diseases including COPD and lung cancer. RF-II is a radiofrequency ablation system used in conjunction with a disposable lung radiofrequency ablation catheter and the only radiofrequency ablation system that specifically targets lung cancer.

MANAGEMENT DISCUSSION AND ANALYSIS

Our products and product pipeline

Set out below are the development status of our products and major product candidates on our three-in-one pulmonology platform as at the date of this report:

	Indication	Portfolio	Region	Preclinical	Clinical Trial	Registration
Treatment	COPD	Inter Vapor for COPD[2][8][9]	China	Launch for sale, China (March, 2022)		
			US	FDA 510 (K) registration application in preparation		20243
			EU	Launch for sale, EU (January, 2018)		
			Others	Launch for sale, UK, Switzerland, Taiwan, Hong Kong, India, Australia		
		TLD Ablation System[8]	China	Registration clinical trial launched in January 2023	20259	202612
	Lung Cancer/ Lung Nodules	InterVapor® for Lung Cancer[3][8][9]	China	In design stage	202512	20273
			US/EU	In design stage		20236 for soft tissue
		RF-SEG Generator + RF-iCon Ablation Catheter (RF-II)[8]	China[4]	Clinical trial in process	20233	20243
			US/EU[5]	FDA 510 (K)/CE; registration in process		20236 for soft tissue
		EMPOWER RF Ablation Catheter (RF-I)[8]	US	Launch for sale, US (February, 2019)		
			EU	Launch for sale, EU (March, 2019)		
		H-Marker[6][8]	China	Launch for sale (June, 2021)		
		Percutaneous RFA probe[8]	China	In design stage	202212 20256	202612
	Other Pulmonary Diseases	Disposable Nebulizing Micro-Catheter for Endoscope	China	Launch for sale, China (October, 2022)		
Navigation	Navigation Platform[1]	LungPoint[8]	China	Launch for sale, China (December, 2014)		
			US	Launch for sale, US (March, 2009)		
			EU	Launch for sale, EU (June, 2010)		
		LungPoint Plus/Archimedes Lite[8]	China	Launch for sale, China (December, 2020)		
			US/EU	Launch for sale, US/EU (March, 2021)		
		LungPro/Archimedes System[3]	China	Launch for sale, China (October, 2017)		
			US	Launch for sale, US (February, 2014)		
			EU	Launch for sale, EU (July, 2014)		
		New-Generation Navigation Platform[8]	China	In design stage	20236 202512	20273
Diagnosis	Lung Cancer/ Lung Nodules	FlexNeedle[8]	China	Launch for sale, China (December, 2014)		
			US	Launch for sale, US (April, 2009)		
			EU	Launch for sale, EU (July, 2013)		
		ATV FleXNeedle CN[7][8]	China	Launch for sale, China (November, 2019)		
		BioStarNeedle[8]	China	Launch for sale, China (June, 2020)		
			EU	Launch for sale, EU (September, 2022)		
		ATV Sheath[8]	China	Launch for sale, China (June, 2018)		
			US	Launch for sale, US (October, 2013)		
			EU	Launch for sale, EU (July, 2014)		
		ATV Balloon[8]	China	Launch for sale, China (June, 2018)		
			US	Launch for sale, US (October, 2013)		
			EU	Launch for sale, EU (July, 2014)		
		Steerable Sheath[8]	China	Launch for sale, China (July, 2020)		

Notes:

1. Our navigation systems have been approved for marketing in the U.S., EU and PRC. Post-market study (EAST 2 Trial) for the Archimedes System has been completed.

2. In March 2022, the Company's InterVapor® has been granted approval for marketing by the NMPA.

3. The clinical study report of R&D clinical trial (VAPORIZE trial) was completed in July 2021.

4. The Company has completed the enrollment of all subjects for the clinical trial.

5. Expect to leverage clinical data collected in China to apply for registrations in the U.S. and EU.

MANAGEMENT DISCUSSION AND ANALYSIS

6. The clinical trial has been completed and the registration in the PRC was approved in June 2021.

7. The version of FleXNeedle manufactured in China.

8. Our in-house developed products refer to products that we have developed as the sponsor of their clinical trials.

9. Subsequent to the acquisition of InterVapor® from Uptake Medical Corp, we continue to improve InterVapor® by sponsoring clinical trials in China and overseas to obtain approvals from local authorities.

Business highlights

The Board is pleased to announce that, from the commencement of the Reporting Period to the date of this report, we achieved significant progress with respect to our product pipelines and business operations, with some milestones summarised below:

(i) With respect to the market access and market share of our product, "Mist Fountain", a disposable nebulizing micro-catheter for endoscope, was officially approved for marketing in China in October 2022. BioStarNeedle, a disposable endoscope suction biopsy needle, was approved in the European Union in September 2022. In March 2023, our six products, namely LungPoint, Archimedes, Lungpoint Plus, and Arhchimedes Access Kit (Flexneedle, Sheath and Balloon), were officially approved for marketing by MD-15 regulations of the India authorities.

In 2022 financial year, our products were sold to over 33 countries and regions all over the world, including the United States, the United Kingdom, Germany, France, Japan, etc.

Our core product InterVapor® thermal vapor treatment system has been clinically applied in nearly 20 hospitals in more than 10 provinces/cities in China, after it was approved for marketing in China in March 2022, and the disposable thermal vapor treatment catheter has obtained the sunshine online procurement price in more than 14 provinces/cities.

According to the public information statistics by the Company, in 2022, our navigation products ranked first in China's installed market share.

(ii) With respect to our research and development, the registration clinical trial enrollment for RF-II was completed in December 2021. At present, the data collection of all the primary trial endpoints of the clinical study has been completed, and the clinical study results of the primary endpoints are under evaluation, the clinical trial report of which is expected to be completed in the second quarter of 2023.

For the Targeted Lung Denervation (TLD) Radiofrequency Ablation System, an innovative device for the treatment of acute exacerbation of COPD, the enrollment in the first-in-man (FIM) clinical trials was completed in July 2022, with 9 patients enrolled. The last subject follow-up visit is expected to be completed in the third quarter of 2023. In November 2022, the launch meeting of its multi-center pre-marketing clinical trial investigator program was successfully held, the program passed the review of the Ethics Committee of the leading researcher in February 2023, and the registration clinical trial will be launched in the first quarter of 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2022, we participated in the 2022 "Leading Goose" (領雁) R&D project in Zhejiang Province to conduct research on new technologies for the diagnosis and treatment of respiratory diseases.

(iii) With regard to partnership, in May 2022, we officially launched the cooperation to introduce the ultrasound technology into the field of respiratory intervention treatment with Healium Medical Ltd., an Israeli company specializing in the R&D of ultrasound energy therapy and imaging monitoring;

In July 2022, we and Shanghai United Family Healthcare jointly established the "Multi-Disciplinary Diagnostics of Pulmonary Nodules", to jointly explore the new diagnosis and treatment service mode of respiratory intervention targeting groups with high-end medical demands;

In December 2022, we signed a strategic cooperation agreement on medical-engineering integration, with the Guangzhou Institute of Respiratory Health with regard to the lung radio frequency ablation system project & the adjustable and bendable bronchoscope sheath project;

Since December 2022, as the representative for cooperation in the respiratory intervention ecosystem, Broncus signed a partnership agreement for the digital medical innovation center with AstraZeneca.

MANAGEMENT DISCUSSION AND ANALYSIS

Core products

InterVapor®

InterVapor® is the world's first and only Thermal Vapor Treatment System to treat lung diseases including COPD and lung cancer. It is a therapeutic device that delivers thermal vapor bronchoscopically to the lung to achieve targeted ablation.

We first initiated the pre-clinical R&D for InterVapor® in September 2010, and commenced our first trial in West China Hospital, the PRC in November 2017 and BTVA Registry study in April 2018. With our seamless effort in research and development, in 2018, InterVapor® was accredited with an EC certificate (CE 678945) from the BSI Group, the Netherlands B.V. and was classified as a Class II medical device in the European Economic Area. In March 2022, InterVapor® was approved by NMPA with registration certificate number (國械註進 20223090145 and 國械註進 20223090144). In July, the first clinical applications of InterVapor® were completed in Guangdong Province and Shaanxi Province after the approval for marketing in China, and the clinical applications were quickly carried out in Liaoning Province, Beijing City and other places, thus significantly benefiting the patients. Despite the impact of the pandemic, the progress in the procurement of the product and its entry into hospitals in China was promoted in an orderly manner. The product prices of the disposable thermal vapor treatment catheter were collected by the open and fair procurement platform in over 14 provinces and cities, which provides a price reference for medical institutions in bargaining and procurement.

Based on our InterVapor® system, we have developed InterVapor® for COPD and InterVapor® Plus for lung cancer targeting COPD treatment and lung cancer treatment, respectively.

- InterVapor® for COPD is designed for COPD treatment through thermal vapor energy ablation. It delivers thermal vapor to the airway of the targeted location of the lung, which requires precise catheter placement and enhanced imaging. It is the world's first interventional pulmonology device using thermal vapor based energy.

- InterVapor® plus for lung cancer is designed for lung cancer treatment through continuous release of thermal vapor energy into the lung. It is designed to ablate lung lesions by the application of thermal vapor to the bronchus of the lung region targeted for treatment and can sufficiently cover the lesion area with appropriate dose of energy.

As of December 31, 2022, the clinical history of InterVapor® includes (1) step-up trial; (2) next-step trial; (3) Vaporize trial; (4) West China Hospital trial; and (5) BTVA Registry study. We completed the patient enrollment and follow-up visit in the next-step trial in June 2020, and the formal study report was completed before September 2021. We also completed the clinical study report on the Vaporize trial in July 2021 to explore the use of InterVapor® for a new indication (lung cancer). The results of the study suggest that bronchoscopic thermal vapor ablation of lung tumors is feasible and well tolerated without major surgery-related complications. With regard to the BTVA Registry Study in EU, as at February 9, 2023, a total of 354 therapeutic procedures were performed on 231 patients enrolled in 17 study centers, without reports on device-related serious adverse events. We plan to close the Registry study upon the commencement of the German government-sponsored BENTO study. In 2023, we will plan to launch various BTVA multicenter clinical studies in China to discuss product use scenarios in more dimensions and to further improve safety information collection.

MANAGEMENT DISCUSSION AND ANALYSIS

We are also in the process of preparing the FDA 510k clearance of InterVapor® for COPD in the United States. The InterVapor® registration application was submitted to the Philippine competent authority in February 2022 and to the Malaysian competent authority in November 2022. It is currently under review and is expected to be approved in the second quarter of 2023.

RF-II

RF-II is a radiofrequency ablation system used in conjunction with a disposable lung radiofrequency ablation catheter, which acts on lung tumors via a bronchoscope to perform ablation to the lung tumors. It is currently the only RFA system that specifically focuses on lung cancer treatment globally. RF-II is classified as a Class III medical device in China and Class II medical device in EU and the U.S.

The enrollment in the registered clinical trial of RF-II was completed in December 2021. Data collection for all major trial endpoints of the clinical study was completed, and trial data are being cleaned. The clinical trial report on the study is expected to be completed in the second quarter of 2023 and will be submitted to NMPA for completion of the medical device marketing review process. Clinical study results for its primary endpoint are being evaluated. In addition, we are preparing an application for the FDA 510k approval and CE registration submission for RF-II. We will also cooperate with key opinion leaders to hold regular training courses for doctors to explain relevant technologies in more detail. After we start the research and development process, RF-II is expected be commercialized within seven years.

THERE IS NO ASSURANCE THAT WE WILL BE ABLE TO ULTIMATELY DEVELOP AND MARKET INTERVAPOR® AND RF-II SUCCESSFULLY.

Our other products and product candidates

TLD

TLD, a Targeted Lung Denervation product developed jointly with West China Hospital of Sichuan University, is the first product independently developed by China for the treatment of COPD by transbronchial radiofrequency ablation, which is expected to be important for COPD treatment by providing deeper tissue ablation around the main bronchus in the lungs to reduce the tension and mucus production in the airway and relieve airway obstruction. TLD mainly destroys motor axons of the peripheral bronchial nerve, blocks parasympathetic transmission in the pulmonary and reduces acetylcholine release, resulting in effects similar to anticholinergics which include reducing airway smooth muscle tension and mucus production, thereby alleviating airway obstruction.

We completed the enrollment of all subjects for the clinical trial of the first application of the Targeted Lung Denervation (TLD) radiofrequency ablation system in the human body in July 2022. All subject follow-up visits will be completed in July 2023. The clinical trial report for the study will not be completed before the time point and is expected to be published by the end of 2023. The clinical trial investigator protocol discussion meeting for the key clinical study on TLD products was held in November 2022, the program passed the review of the Ethics Committee of the leading researcher in February 2023, and the study was scheduled to be officially launched in the first quarter of 2023. The study was a prospective, randomized, single-blind, sham-operated group-controlled multicenter clinical trial. A total of 189 patients with moderate to severe COPD were planned to be enrolled in 26 research centers in China to evaluate the safety and effectiveness of the product. The study is expected to have a 28-month enrollment period and a 12-month follow-up period, with LPOs expected in July 2026. Clinical trial reports and data publicity will not be completed before the time point.

MANAGEMENT DISCUSSION AND ANALYSIS

"Mist Fountain", a disposable nebulizing micro-catheter for endoscope

The "Mist Fountain" nebulizing micro-catheter is used in conjunction with the endoscope. Under the guidance of the navigation system, it can accurately reach the lesion site, atomize and administer the drug, and directly deliver the drug to the lung lesion tissue. The product has strong compatibility and multiple indications. It is compatible with many kinds of drugs and is mainly used for accurate anti-inflammation, local hemostasis, phlegm reduction and elimination, staining location, local anesthesia, etc.

Through the microfluidic chip, the "Mist Fountain" nebulizing micro-catheter sprays out the drug with a particle size as small as about 20μm, which enables the direct delivery of the particles of the drug to local lesion tissues, the increased local drug concentration, the more uniform distribution, the long attachment duration, the long anti-inflammation and the stable drug effect. The catheter body is made of safe materials and features good drug compatibility with various drugs, as well as wide indications. The front end of the microfluidic chip is blunt, which enables the smooth entry of the catheter in the operation process and protects the bronchial tube wall, showing good safety, thus reducing the risk of tissue damage. It features compatibility with bronchoscopes of different brands, simple operation and high popularity.

The product was officially approved for marketing by Zhejiang Medical Products Administration in October 2022, thus becoming the only approved nebulizing micro-catheter in China. The product with multiple patented technologies helps explore a wide range of applications of drugs in conjunction with devices in the treatment of lung diseases.

H-Marker

H-Marker is a self-developed pulmonary surgery marker that is used to mark the location of the lung nodule to achieve precise positioning during surgical pneumonectomy. When used, it is temporarily implanted into the lung through the airway and removed afterwards by surgery. Compared with the operation process of other existing positioning tools, H-Marker is simpler, more reliable and less likely to damage blood vessels with its self-expanding characteristics and spindle shape.

We have received the designation of H-Marker as a Class II "innovative medical device", which is eligible for expedited approval, by Zhejiang MPA (浙江省藥品監督管理局) in October 2020 and obtained the Zhejiang MPA approval in June 2021.

LungPoint, LungPoint Plus/Archimedes Lite and Archimedes systems

As the world's only provider of transbronchial whole lung augmented reality navigation technology, we currently have three marketed navigation products, including LungPoint, LungPoint Plus (known as "Archimedes Lite" outside Asia) and LungPro (known as "Archimedes" outside China).

MANAGEMENT DISCUSSION AND ANALYSIS

- LungPoint, or LungPoint Virtual Bronchoscopic Navigation, is a computer-assisted image-based navigation software system which, along with a set of biopsy tools, provides doctors with real-time path navigation within the airways and further localization guidance to a targeted area of interest in the lung for lung biopsy and other procedures. LungPoint was approved for marketing and commercial use in the U.S. by the FDA in 2009, the EU by the BSI in 2011, and the PRC by the NMPA in 2014. LungPoint is classified as Class II medical device by the FDA, as Class IIa medical device in the EU, and as Class III medical device by the NMPA.

- LungPoint Plus/Archimedes Lite, which was launched in 2020, provides real-time navigation within the airways for lung biopsy and other procedures through reconstruction of CT-based images and simultaneous display of actual and simulated images for more accurate and effective pathway planning to the target. LungPoint Plus has been commercialized internationally since late 2020 and was launched for sale in EU and the U.S. in March 2021. LungPoint Plus is classified as Class II medical device by the FDA, as Class IIa medical device in the EU, and as Class III medical device by the NMPA.

- The LungPoint ATV System, also known as LungPro in China or the Archimedes System outside China (the "**Archimedes System**"), is an upgraded product based on the LungPoint VBN system. The Archimedes System takes the application of the VBN technology to the next level by adopting a novel approach to enable precise navigation and localize peripheral lesions away from or adjacent to the airway. The Archimedes System was approved for marketing and commercial use in the U.S. by the FDA in 2014, the EU by the BSI in 2014, and the PRC by the NMPA in 2017. The Archimedes System is classified as Class II medical device by the FDA, as Class IIa medical device in the EU, and as Class III medical device by the NMPA.

THERE IS NO ASSURANCE THAT WE WILL BE ABLE TO ULTIMATELY DEVELOP AND MARKET H-MARKER, LUNGPOINT, LUNGPOINT PLUS/ARCHIMEDES LITE, THE ARCHIMEDES SYSTEM, OR ANY OF OUR PIPELINE PRODUCTS SUCCESSFULLY.

Manufacturing

During the Reporting Period, we carried out our manufacturing activities at our production centers based in Hangzhou, China and San Jose, the U.S. where we manufacture navigation products and InterVapor® in the U.S. and certain consumables in China. The production center in Hangzhou, China occupies an aggregate of gross floor area of approximately 3,122 sq.m. and the production center in San Jose, the U.S., occupies an aggregate area of approximately 863 sq.m.

Manufacturing of our therapeutic products and product candidates

Historically, early navigation products were developed by our U.S. team and we have mainly manufactured our navigation products in the U.S. In order to leverage the labor and material cost advantages in China over the U.S., we are in the process of moving the manufacturing process of our products gradually to China. Starting from June 2021, we have begun to manufacture our H-Marker in our Hangzhou facility. We started to produce our other therapeutic products (including InterVapor® products) in Hangzhou factory in 2021. It is expected that NMPA registration approval will be obtained for domestic InterVapor® in May 2023, and the subsequent production process will completely move to China.

MANAGEMENT DISCUSSION AND ANALYSIS

Manufacturing of our navigation systems

Our navigation systems, including our LungPoint, LungPoint Plus and Archimedes System, are manufactured in our San Jose, California facility in the U.S. This facility is ISO13485 compliant and Broncus Medical is the manufacturer of record in US 510(k) clearance and European CE Marked LungPoint products. NMPA correction notice was received on October 27, 2022 for domestic LungPoint, which is expected to be approved in May 2023. A registration application for the domestic Archimedes system (whole lung navigation system, known as LungPro in China) is expected to be submitted in the first quarter of 2023 and approved in September 2023.

Manufacturing of our diagnosis medical consumables and product candidates

Our main production facility for diagnosis medical consumables and product candidates is our Hangzhou facility. We can expand our production capacity quickly in response to market demand.

Research and development

We focus on developing innovative technologies and products for navigation, diagnosis and treatment of pulmonary diseases. We have a proven track record of developing and commercializing interventional pulmonology medical devices. To strengthen our R&D capabilities, we adopt an efficient R&D model that combines international technologies with local R&D cost advantage, and participate in government scientific research projects, such as the 2022 "Leading Goose"（領雁）R&D project in Zhejiang Province, to support our intellectual property portfolio and product iterations.

We are engaged in ongoing R&D activities to deliver clinically advanced new products, to enhance the effectiveness, ease of use, safety, reliability, and to expand the applications of our products as appropriate. As of the date of this report, we had 18 product candidates in various stages.

The expenditure on the R&D activities of InterVapor® and RF-II primarily consisted of:

- clinical trials of InterVapor® on lung cancer in China and U.S. or the EU;
- clinical trials of RF-II and its research and development in China;
- construction of InterVapor® R&D laboratory and investment in the R&D equipment used for InterVapor®;
- post-marketing studies in China, U.S., EU and other countries; and
- registration in China, U.S and other countries.

Sales and marketing

Currently, we primarily sell and market our interventional pulmonary products in the U.S., Europe and Asia. As our current products and product candidates receive more marketing approval or CE Marking certification, we expect to generate more sales globally.

MANAGEMENT DISCUSSION AND ANALYSIS

We adopt both direct sales and sales through distributors arrangement. During the Reporting Period, we sell products both directly to hospitals and through distributors, including our navigation systems such as the Archimedes System and LungPoint, InterVapor® catheter and certain medical consumables. In line with market practice, we sell a significant portion of our navigation systems to distributors who resell our products to hospitals. The following table sets forth the number of hospitals to which we sold products directly for the year indicated.

	For the year ended December 31,	
	2022	2021
Direct sales to hospitals	**66**	68
• Europe	**39**	33
• USA	**20**	22
• PRC (Mainland)	**3**	7
• Others	**4**	6

The following table set forth the number of distributors to whom we directly sold products for the year indicated.

	For the year ended December 31,	
	2022	2021
Distributors	**55**	43
• PRC (Mainland)	**36**	22
• Europe	**8**	10
• Asia (excluding China) and other regions	**11**	11

For the year ended December 31, 2022, our revenue generated from distributors and direct sales accounted for approximately US$7.1 million and US$2.3 million, respectively, compared to US$6.0 million and US$4.9 million in the corresponding period last year.

Intellectual Property

As of December 31, 2022, we obtained 748 patents and patent applications which consisted of 359 issued patents (including pending announcements) and 198 patent applications in China and 105 issued patents and 86 patent applications overseas including key markets such as the U.S. and the EU. Among the patents obtained, 117 and 50 of them are related to InterVapor® and RF-II, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Strategic Cooperation

In February 2022, we entered into a strategic cooperation agreement with Healium Medical Ltd. ("**Healium**"), an Israeli company specializing in the development of ultrasound energy therapy and imaging monitoring. The cooperation aims to integrate energy ablation and ultrasound technology, so that the operator can realize real-time monitoring of the state of ablated tissues without frequently changing devices, thus effectively avoiding insufficiency or excess of energy in the treatment process, promoting the predictability of treatment results, simplifying the operation, improving the safety and effectiveness of the operation, and the popularization of interventional surgery in the treatment of lung diseases. The cooperation was approved by Israel IIA and the input and output confirmation of R&D design was officially initiated in May 2022.

In July 2022, we and Shanghai United Family Healthcare jointly established the "Multi-Disciplinary Diagnostics of Pulmonary Nodules", to cover the population with high-end commercial insurance. This is the first step in the strategic cooperation between the parties. In the future, the parties will continue to jointly explore new models of respiratory intervention diagnosis and treatment services as well as other cutting-edge technologies for groups with high-end medical needs.

In November 2022, we entered into a strategic partnership with Eternal Asia, a leading enterprise in supply chain services in China, so as to give full play to the core advantages of the parties, integrate resources through a cooperation platform, complement each other's advantages, and enhance competitiveness. Eternal Asia will use its professional supply chain services to facilitate the coverage of Broncus pulmonary intervention diagnosis and treatment products over a wider market.

In December 2022, we signed a strategic cooperation agreement on medical-engineering integration, with Guangzhou Institute of Respiratory Health with regard to the lung radio frequency ablation system project & the adjustable and bendable bronchoscope sheath project. Based on their respective advantages in medical resources and technology platforms, the parties will establish a comprehensive, wide-coverage and diversified cooperation system, to actively promote the deep integration and technological innovation of medicine and engineering, and usher in a new era of interventional therapy for lung cancer.

Since December 2022, as the representative for cooperation in the respiratory intervention ecosystem, Broncus signed a partnership agreement for the digital medical innovation center with AstraZeneca. During the cooperation, the integrated diagnosis and treatment products can be displayed in the digital medical innovation center of AstraZeneca in Hangzhou. The parties will also jointly participate in a series of training activities of the Respiratory Intervention Training College.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE AND PROSPECTS

People deeply understand and pay attention to lung health, in the face of the global spread of COPD and lung cancer as a result of the aging population, air pollution and smoking habits, and the pandemic. We see a huge market demand for solutions for minimally invasive treatment of lung diseases. The global and Chinese populations with COPD in 2021 were 233.6 million and 107 million, respectively. The number of patients with COPD in the world and China is expected to increase to 258.4 million and 109.6 million respectively by 2025. We plan to expand our sales network by providing more doctor training and patient education, facilitating equipment installation and deepening our penetration in hospitals. Through our proprietary BTPNA technology, we plan to raise the awareness of hospitals, doctors and patients about the navigation platform as an indispensable tool for interventional pulmonology diagnosis and treatment, and promote the penetration of navigation equipment in hospitals through the development and commercialization of a series of therapeutic products.

With respect to InterVapor® being granted marketing approval by the NMPA, we anticipate our key future marketing strategies to include, firstly, to promote as leader in differentiating treatment areas and further grow utilization through professional education and market promotion after our treatments are approved by the NMPA; secondly, to take advantage of opportunities to initiate controller installation and accelerate equipment hospital listing; thirdly, to focus on mobilizing our internal sales team via targeted coaching and progress tracking to drive consumable utilization.

By leveraging our more established experience in sales and marketing of LungPoint and the Archimedes System, we plan to expand our sales of LungPoint Plus and other medical consumables in China.

We plan to expand our R&D team globally to ensure continuous technology and product innovation and enrich our intellectual property portfolio mapping across existing and future technologies with precise market positioning. We plan to increase spending on artificial intelligence and machine learning to accumulate large sets of clinical data and cases in the application of diagnosis and treatment procedures guided by our navigation systems.

MANAGEMENT DISCUSSION AND ANALYSIS

Looking forward to 2023, we will continuously promote pre-marketing clinical trials of products under development and improve the EBM evidence for marketed products through post-marketing clinical studies that meet regulatory requirements. A key clinical study of the TLD product is planned to be initiated in the first quarter of 2023. It is a prospective, randomized, single-blind, sham-operated group-controlled multicenter clinical trial. A total of 189 patients with moderate to severe COPD were planned to be enrolled in 26 research centers in China to evaluate the safety and effectiveness of the product. The study is expected to have a 28-month enrollment period and a 12-month follow-up period. All subject follow-up visits are expected to be completed in July 2026. Clinical trial reports and data publicity will not be completed before the time point. We plan to conduct an investigator-initiated, multicenter, randomized controlled clinical study in the UK to evaluate the use of BTVA in the treatment of middle and/or lower lobe emphysema for which no data are currently available, which is expected to be completed by 2024. We also plan to conduct a prospective, multicenter, single-blind, randomized controlled study entitled Targeted Segmental Vapor Ablation Treatment of Emphysema with Upper LobePredominance: A Randomized Controlled Trial of InterVapor® in France and Germany, which is scheduled to start in the second quarter of 2023 and be completed by 2025. We plan to support a government-sponsored, prospective, multicenter, single-blind, randomized controlled trial in Germany, entitled Targeted Segmental Vapor Ablation Treatment of Emphysema with Upper LobePredominance: A randomized Controlled Trial of InterVapor®, which is expected to start in the fourth quarter of 2023 and be completed by 2025. In addition, we plan to conduct a series of clinical studies focusing on lung cancer indications and some post-marketing clinical studies for InterVapor® in several other regions. Clinical trials of lung cancer indications are expected to be conducted in China and Europe from 2023 to 2025. Our planned post-marketing clinical studies include the post-marketing clinical studies to be conducted in China from 2022 to 2024 and the post-marketing clinical studies to be conducted in India from 2021 to 2028.

The impact of COVID-19

During the COVID-19 outbreak, there were delays in the patient enrollment process and data entry for some of our clinical trials, mainly due to government policies and preventive measures taken by hospitals. Because of our business, preclinical studies and clinical trials in China, we made more progress in clinical trials in the first quarter of 2022 as compared with the same period of the previous year. Although the COVID-19 outbreak, which began at the end of October 2022 and spread across various provinces of China, affected normal medical services in some hospitals, all other operations of the Company were normal as at the date of this report.

Nevertheless, our revenue for the year ended December 31, 2022 was US$9.4 million, representing an increase of 8%, excluding revenue from licensing fees, as compared with the year ended December 31, 2021. As the precedent of the COVID-19 outbreak is limited, we cannot predict its ultimate impact on our business. There is no assurance that the COVID-19 outbreak will not further escalate or materially and adversely affect our results of operations.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Overview

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

Revenue

For the Reporting Period, the revenue of the Group was US$9.4 million, representing an increase of 8%, excluding revenue from licensing fees, compared with US$8.7 million in the corresponding period last year.

Other income and gains

For the Reporting Period, our other income and gains consist primarily of government grants, bank interest income, foreign exchange gains and fair value gains from financial assets at fair value through profit or loss. Total other income and gains were approximately US$4.8 million for the year ended December 31, 2022, representing an increase of approximately US$1.7 million from the year ended December 31, 2021, mainly due to an increase in interest income from US$0.1 million to US$2.6 million.

R&D expenses

Our R&D costs mainly consist of staff costs for our research and development employees, depreciation and amortization, raw material costs, technical service fees, clinical trial expenses, travel and business related expenses and share awards.

Our technical service fees refer to the service fees we paid to our third-party service providers for complementary services needed for product development, including development of low-value consumables, product testing and other services. Clinical trial expenses include expenses incurred for conducting clinical trials, including payment to CROs and hospitals in relation to our clinical trials.

For the year ended December 31, 2022 and 2021, we incurred R&D costs of approximately US$19.2 million and US$16.8 million, respectively, representing an increase of 14.4%. The increase in our R&D costs was mainly due to (i) increased staff cost from US$7.0 million in 2021 to US$10.4 million in 2022 due to the expansion of our R&D team arising from the expansion of R&D projects and the acceleration of the process; and (ii) increased technical service fees in relation to the strategic cooperation with Healium Medical Ltd., an Israeli company specializing in the imaging monitoring.

MANAGEMENT DISCUSSION AND ANALYSIS

	Year ended December 31, 2022		Year ended December 31, 2021	
	US$'000	Proportion	US$'000	Proportion
Staff cost	**10,446**	**54.5%**	7,000	41.8%
Technical service fees	**2,537**	**13.2%**	1,577	9.4%
Depreciation and amortization	**2,426**	**12.7%**	2,346	14.0%
Raw material costs	**909**	**4.7%**	1,342	8.0%
Share awards	**859**	**4.5%**	1,551	9.3%
Others	**668**	**3.5%**	764	4.4%
Clinical trial expenses	**623**	**3.3%**	1,504	9.0%
Travel and business related expenses	**346**	**1.8%**	345	2.1%
Office expenses	**353**	**1.8%**	330	2.0%
Total	**19,167**	**100.0%**	16,759	100.0%

Selling and distribution expenses

For the year ended December 31, 2022 and 2021, our selling and distribution expenses were US$11.2 million and US$12.7 million, respectively, representing a decrease of 11.9%. The decrease in our selling and distribution expenses was mainly due to our decreased share award expenses.

Administrative expenses

For the year ended December 31, 2022 and 2021, our total administrative expenses were approximately US$9.2 million and US$18.5 million, respectively. The decrease was mainly due to (i) our professional service fees incurred for the Global Offering in 2021 and (ii) our decreased share award expenses.

Liquidity and capital resources

The Group has always adopted a prudent treasury management policy. The Group places strong emphasis on having funds readily available and accessible and is in a stable liquidity position with sufficient funds in standby banking facilities to cope with daily operations and meet its future development demands for capital.

As at December 31, 2022, our cash and bank balances and deposits totalled US$188.4 million, as compared to our cash and bank balances and deposits of US$227.2 million as at December 31, 2021. The decrease was mainly due to the R&D investment, sales promotion, daily operation and other expenses incurred by the Company as well as the external investment.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth a condensed summary of the Group's annual consolidated statement of cash flows for the years indicated and analysis of balances of cash and cash equivalents for the years indicated:

	Year ended December 31,	
	2022	2021
	US$'000	US$'000
Net cash flows used in operating activities	**(30,954)**	(31,494)
Net cash flows used in investing activities	**(87,569)**	(1,753)
Net cash flows (used in)/from financing activities	**(572)**	241,822
Net (decrease)/increase in cash and cash equivalents	**(119,095)**	208,575
Cash and cash equivalents at the beginning of the year	**227,207**	18,788
Effect of foreign exchange rate changes, net	**(1,356)**	(156)
Cash and cash equivalents at the end of the year	**106,756**	227,207
Analysis of balances of cash and cash equivalents	**106,756**	227,207
Cash and cash equivalents as stated in the consolidated statement of financial position	**106,756**	227,207

As at December 31, 2022, cash and cash equivalents were mainly denominated in Hong Kong dollars, United States dollars and Renminbi.

Bank Borrowings and Gearing

The Group's overdraft facilities amounting to US$80,000 (2021: US$80,000), of which US$29,000 (2021: US$13,000) had been utilised were secured by the pledge of certain of the Group's time deposits amounting to US$25,000 (2021: US$25,000).

The Group monitored capital using gearing ratio. As at December 31, 2022 and December 31, 2021, the Group's gearing ratio (total debt less cash and cash equivalent as a percentage of total equity as of the end of the year) were negative values.

Foreign Exchange Risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between US$ and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations.

In response to the foreign exchange risk, the Company seeks to limit its exposure to foreign currency risk by minimizing its net foreign currency position to reduce the impact of the foreign exchange risk on the Company. During the Reporting Period, the Group had not engaged in any foreign exchange hedging related activity.

Contingent Liabilities

As at December 31, 2022, the Group did not have any significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Charge or Restrictions on Assets

As of December 31, 2022, the Group had pledged deposits of US$526,000 (December 31, 2021: US$238,000). The pledged deposits were placed to secure the Group's bank overdraft facilities, the Group's service and rent deposits. Save as disclosed in this report, the Group did not pledge any group assets.

NON-IFRS MEASURES

To supplement our consolidated statements of profit or loss which are presented in accordance with IFRS, we also use adjusted net loss as non-IFRS measures, which are not required by, or presented in accordance with, IFRS. We believe that the presentation of non-IFRS measures when shown in conjunction with the corresponding IFRS measures provides useful information to investors and management in facilitating a comparison of our operating performance from year to year by eliminating potential impacts of certain non-operational or one-off expenses that do not affect our ongoing operating performance, including changes in fair value of convertible redeemable preferred shares, share awards and listing expenses. Such non-IFRS measures allow investors to consider metrics used by our management in evaluating our performance. Changes in fair value of convertible redeemable preferred shares represent the changes in fair value of various rights associated with the preferred shares, which is non – recurring and non-operational in nature. Share awards expenses are non-operational expenses arising from granting shares to selected executives, employees and R&D consultants, the amount of which may not directly correlate with the underlying performance of our business operations, and is also affected by non-operating performance related factors that are not closely or directly related to our business activities. With respect to share awards, determining its fair value involves a high-degree of judgment. Historical occurrence of share awards is not indicative of any future occurrence. Listing expenses are one-off expenses in relation to the Listing and the Global Offering. Therefore, we do not consider changes in fair value of convertible redeemable preferred shares, share awards and listing expenses to be indicative of our ongoing core operating performance and exclude them in reviewing our financial results. From time to time in the future, there may be other items that we may exclude in reviewing our financial results.

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

The following table shows reconciliation of net loss for the year to our adjusted net loss for the years indicated:

	Year ended December 31,	
	2022	2021
	US$'000	US$'000
Loss for the year	**(28,036)**	(236,178)
Add:		
Changes in fair value of convertible redeemable preferred shares	**–**	198,874
Share awards[1]	**1,123**	9,011
Listing expenses	**–**	4,639
Non-IFRS adjusted net loss for the year[2]	**(26,913)**	(23,654)

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

(1) Represent the total expenses associated with the shares we granted to our sales and marketing employees, administrative employees and research and development employees.

(2) We consider changes in fair value of convertible redeemable preferred shares, share awards and listing expenses as non-operational or one-off expenses which do not affect our ongoing operating performance. We believe the net loss as adjusted by eliminating potential impacts of the changes in fair value of convertible redeemable preferred shares, share awards and listing expenses provides useful information to investors in facilitating a comparison of our operating performance from year to year.

FINAL DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the year ended December 31, 2022 (2021: Nil).

CAPITAL COMMITMENT

Particulars of capital commitments of the Group as at December 31, 2022 are set out in note 29 to the consolidated financial statements.

SIGNIFICANT INVESTMENTS HELD

During the Reporting Period, the Group did not have any significant investments, acquisitions or disposals of subsidiaries, associates and joint ventures.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

An indirect wholly-owned subsidiary of the Company has entered into a partnership agreement on March 28, 2023, pursuant to which, it has agreed to subscribe for a capital contribution in the amount of RMB125 million as a limited partner and it will be funded from the Group's internal fund resources. The partnership fund focuses at investments in the digital medical devices and projects of related industries space, accordingly, it is considered that the aforesaid investment into the fund will be in the interests of the Company and its shareholders as a whole. For further details, please refer to the announcement of the Company dated March 29, 2023.

Except for above investment and the expansion strategies disclosed in sections "Business" and "Future Plans and Use of Proceeds" in the Prospectus, the Group does not have any specific plans for significant investments or acquisition of material capital assets or other businesses. The Group, however, will continue to identify product line expansion opportunities.

EMPLOYEES AND REMUNERATION POLICY

As at December 31, 2022, the Group had 376 employees. During the Reporting Period, the total staff costs (including Director's emoluments and excluding share award expenses) were approximately US$22.4 million (for the same period in 2021: US$17.3 million). For details on our employees' remuneration policy, please refer to the section headed "Report of the Directors – Relationships with the Group's Employees" of this annual report.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Guowei ZHAN (湛國威), aged 46, was appointed as an executive Director of our Company on May 6, 2021. He joined our Group as a General Manager and was also appointed as the CEO of our Company in December 2017. He is mainly involved in overall strategic planning, business direction and operational management.

Mr. Zhan has over 23 years of experience in the industry of medical devices. Prior to joining our Group, Mr. Zhan was the vice president of DiNovA Medtech Technology Co., Ltd. (杭州德諾科技有限公司), a specialized medical device business incubator in China, from August 2015 to June 2017. Prior to joining DiNovA Medtech Technology Co., Ltd., Mr. Zhan served as a sales director and later as the Chief Marketing Officer at Lifetech Scientific Corporation (先健科技公司), a company listed on the Hong Kong Stock Exchange (stock code: 1302). Prior to that, he worked at Johnson & Johnson Medical (China) Ltd. (強生(中國)醫療器材有限公司) from July 1999 to June 2009 and held positions including national sales manager at Johnson & Johnson Biosense Webster. Mr. Zhan has been awarded as a yearly Top Sales Manager in 2007 at Johnson & Johnson Medical (China) Ltd. with outstanding sales performance.

Mr. Zhan graduated with a bachelor's degree in international finance from Sun Yat-sen University, China in June 1999.

Mr. Hong XU (徐宏), aged 36, was appointed as an executive Director and CTO of our Company on May 6, 2021. He joined our Group as CTO of Broncus Hangzhou in February 2018, and is mainly involved in overall strategic planning, business direction and operational management.

Mr. Xu has over 12 years of industry experience. Prior to joining our Group, Mr. Xu served as the associate general manager at Shenzhen Chuangling Image Technology Co., Ltd. (深圳市創領圖像技術有限公司), a subsidiary of APT Medical Inc (深圳惠泰醫療器械股份有限公司), an electrophysiological and vascular interventional medical device company from September 2014 to February 2018 and held positions of manager of R&D, associate manager of R&D department and R&D engineer at APT Medical Inc. from July 2010 to March 2015.

Mr. Xu obtained a bachelor's degree in polymer material and engineering from Sichuan University in Chengdu, China, in June 2010.

Mr. Xu currently holds legal representative and manager in the major subsidiaries of our Group, including Broncus Hangzhou, Broncus Shanghai and Kunpeng Hangzhou.

DIRECTORS AND SENIOR MANAGEMENT

Non-executive Directors

Mr. Michael Yi Wei ZHAO, aged 56, was appointed as a Director of our Company from April 30, 2012 to June 25, 2014, and was re-appointed as a Director on September 15, 2015. Mr. Zhao was re-designated as a non-executive Director and appointed as chairman of the Board on May 6, 2021. Mr. Zhao is responsible for participating in formulating our Company's corporate and business strategies.

Mr. Zhao has around 25 years of experience in medical devices, pharmaceuticals and health care areas. Prior to founding Broncus, Mr. Zhao served as the chief executive officer from April 2010 to March 2015 and the executive director with effect from October 2011 to March 2015 in Lifetech Scientific Corporation (先健科技公司) (stock code: 1302). From 1998 to 2006, Mr. Zhao worked at Johnson & Johnson Medical (China) Ltd. (強生(中國)醫療器材有限公司), a multinational corporation in the medical industry, in a number of senior management roles. Those roles include the Sales Representative of Ethicon Suture U.S., European Project Leader for Hepacoat Stents at Cordis European Office, Product Manager at Cordis Endovascular, Medical Australia, Group Marketing Manager of Cordis Franchise, Franchise Manager, Cordis, Medical China, Franchise Director and General Manager. Mr. Zhao received the Marketing Award in 2000 issued by Johnson & Johnson Medical in recognition of his outstanding performance and achievement.

Mr. Zhao obtained a bachelor's degree in science from Huntington College in Huntington, the United States in May 1990 and earned his master's degree in business administration from the University of Western Ontario in London, Canada in April 1998.

Mr. Zhao was the Secretary General of the Chinese Medical Association Arrhythmia Diagnosis and Treatment Committee.

Mr. Zhao currently holds directorship in the major subsidiaries of our Group, including Broncus Medical, Uptake Medical and Broncus Hangzhou.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhenjun ZI (訾振軍), aged 52, was appointed as a Director of our Company on February 18, 2014. He was re-designated as a non-executive Director on May 6, 2021. He is primarily responsible for participating in formulating our Company's corporate and business strategies.

Mr. Zi has over 20 years of industry experience. Mr. Zi has been an executive director and the general manager of Venus Medtech (Hangzhou) Inc. (杭州啓明醫療器械股份有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 2500), since November 2012 and was primarily responsible for the overall management, business strategies, regulatory approvals and commercial suitability of products. Prior to that, Mr. Zi worked at Lifetech Scientific Corporation (先健科技公司) (stock code: 1302) in roles including Technical Project Manager and Business Development and Strategic Planning Director from January 2003.

Mr. Zi received his master's degree in science in applied chemistry from Hefei University of Technology in Hefei, China, in April 1998.

Mr. Zi currently holds directorship in the major subsidiaries of our Group, including Broncus Medical, Uptake Medical and Broncus Hangzhou.

Mr. Ao ZHANG (張奧), aged 38, was appointed as a Director of our Company on April 29, 2021 and re-designated as a non-executive Director on May 6, 2021. He is primarily responsible for participating in formulating our Company's corporate and business strategies.

Mr. Zhang has around 10 years of experience in healthcare investments. Mr. Zhang has worked at Qiming Weichuang Chuangye Investment Management (Shanghai) Co., Ltd. since January 2015 and is currently an executive director. Mr. Zhang served as a vice president and was responsible for the healthcare investment area at WI Harper Group, a venture capital firm focusing on early to growth stage companies across the United States, Greater China, and Asia Pacific, from June 2013 to December 2014. Prior to that, he worked as an investment associate at CEC Capital Group (formerly known as China eCapital Corporation) (易凱資本有限公司), an investment bank with a core focus on healthcare, consumer and technology, media and telecom sectors, from May 2010 to May 2013.

Mr. Zhang obtained a bachelor's degree in biomedical engineering from Tsinghua University (清華大學) in Beijing, China in July 2007 and received his master of science degree in medical and radiological sciences from the University of Edinburgh in Edinburgh, the United Kingdom in December 2008 and a master of science degree in risk management and financial engineering from Imperial College London in London, the United Kingdom in November 2009.

Mr. Zhang currently holds directorship in the major subsidiaries of our Group, including Broncus Medical, Uptake Medical and Broncus Hangzhou.

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Dr. Pok Man KAM (甘博文), aged 73, was appointed as an Independent Non-Executive Director of our Company on September 13, 2021. Dr. Kam is a certified public accountant. He was the chief executive officer of the Financial Reporting Council from April 2010 to March 2013. Dr. Kam joined Jardine Matheson in April 1976 and was its group financial controller from 1984 until his retirement in March 2010. Prior to that, he worked as an auditing professional at PricewaterhouseCoopers (formerly Lowe, Bingham & Matthews/Price Waterhouse & Co.) from April 1972 to March 1976.

Dr. Kam is a member of the Supervisory Committee of the Tracker Fund of Hong Kong since April 2016, and a member of the Steering Committee of the HKSAR Government Scholarship Fund (GSF) and the Investment Committees of GSF and the Self-financing Post-secondary Education Fund since May 2019. He was a member of the Hospital Authority from April 2013 to March 2019 and the chairman of its Provident Fund Scheme from November 2015 to November 2020. He was the chairman of the Hospital Governing Committee of Queen Elizabeth Hospital from April 2016 to March 2022, and a convenor of Financial Reporting Review Panel from July 2016 to July 2022. He was the president of the Hong Kong Institute of Certified Public Accountants in 1999 and 2000, and a member of the IFRS Advisory Council (formerly Standards Advisory Council) of International Accounting Standards Board from August 2005 to December 2011. In recognition of his distinguished and outstanding service to the community, he was awarded the Bronze Bauhinia Star in 2017.

Dr. Kam obtained his Doctor of Philosophy degree in Accounting from the University of the Sunshine Coast in Australia in April 2008 and his Master degree in Business Administration from the Chinese University of Hong Kong in December 1983. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in England and Wales, the Association of Chartered Certified Accountants, the Chartered Institute of Management Accountants and the Chartered Governance Institute. He is also a member of the Chartered Professional Accountants of British Columbia in Canada and an honorary member of CPA Australia.

Professor Joseph Wan Yee LAU (劉允怡), aged 75, was appointed as an Independent Non-Executive Director of our Company on September 13, 2021. Professor Lau is primarily responsible for supervising and providing independent judgement to our Board.

Professor Lau, an expert on hepato-pancreato-biliary surgery and an academician of the Chinese Academy of Sciences, is the Founding Master of Lee Woo Sing College and Research Professor at the Faculty of Medicine and Emeritus Professor at the Department of Surgery of The Chinese University of Hong Kong, current chairman of the Medical Council of Hong Kong, past president of the International Hepato-Pancreato-Biliary Association and Asian-Pacific Hepato-Pancreato-Biliary Association. Professor Lau has been an independent non-executive director of NISI (HK) Limited, a company that specializes in noninvasive surgical innovations, since February 2017. Professor Lau has also been an independent non-executive director of Venus Medtech (Hangzhou) Inc. (杭州啓明醫療器械股份有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 2500), since December 2019.

DIRECTORS AND SENIOR MANAGEMENT

Professor Lau is active both at the international and local surgical scene and holds many key positions in government and professional organizations. He has been the chairman of the Medical Council of Hong Kong since March 2012. He was president of the International Hepato-Pancreato-Biliary Association from April 2002 to 2004. He was elected as an academician of the Chinese Academy of Sciences in 2003, and was awarded Honorary Fellow of Royal Australasian College of Surgeons in 2003. He was president of Asian-Pacific Hepato-Pancreato-Biliary Association from 2009 to 2011, and was awarded Honorary Fellow of College of Surgeons of Hong Kong in 2011.

Professor Lau was awarded the Wu Jieping Medical Prize in September 2012 for his momentous lifetime contributions to the global medical field and the Silver Bauhinia Star (SBS) in 2013 for his distinguished service to Hong Kong.

Professor Lau obtained bachelor's degrees in medicine and surgery from the University of Hong Kong in Hong Kong in 1972 and was conferred a degree of doctor of medicine from the Chinese University of Hong Kong in Hong Kong in December 1995.

Ms. Yee Sin WONG (黃依倩), aged 59, was appointed as an Independent Non-Executive Director of our Company on August 30, 2022. Ms. Wong is primarily responsible for supervising and providing independent judgement to our Board.

Ms. Wong has been working at the University of Hong Kong for many years and is committed to promoting exchanges and development between the University of Hong Kong and the Mainland. From June 2020 to present, Ms. Wong has been the secretary general of the University of Hong Kong. Since March 2017, Ms. Wong has been serving as the Associate Vice-President (China Affairs), where she has provided advice and high-level support to the President and school management on the policies and strategies of the University of Hong Kong's Mainland development. From September 2014 to May 2020, Ms. Wong served as the director of China Affairs and director of the Student Enrolment and Academic Exchange Department of the University of Hong Kong, providing a high level of support for the University of Hong Kong's development strategy in the Mainland and planning new initiatives for various projects undertaken by the University of Hong Kong in the Mainland and strategic projects such as the University of Hong Kong's campus in the Greater Bay Area. From June 2002 to August 2014, Ms. Wong served as the director of China Affairs and director of Academic Exchange Department at the University of Hong Kong, providing support to all Mainland projects of the University of Hong Kong, promoting undergraduate programmes at the University of Hong Kong to prospective students in Mainland China and maintaining contact with Mainland and overseas universities.

Ms. Wong obtained a bachelor of science degree from Jinan University in Guangzhou, China in 1987.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Guowei ZHAN (湛國威), aged 46, is our executive Director and CEO. Please see his biography in the section headed "Executive Directors" in this section.

Mr. Hong XU (徐宏), aged 36, is our executive Director and CTO. Please see his biography in the section headed "Executive Directors" in this section.

Mr. Todd A. CORNELL, aged 53, joined our Group in August 2017 and was elected the president of Broncus Medical and Uptake Medical, our subsidiaries and is mainly responsible for the operations of our Group in the United States and Europe since March 15, 2019.

Mr. Cornell has 30 years of industry experience. Prior to joining our Group, Mr. Cornell served as vice president of sales at Sirtex Medical, Inc, a medical device company providing a radioactive treatment for inoperable liver cancer, from January 2017 to May 2017. From June 2009 to December 2016. he served as the vice president of sales at Pulmonx, Inc., a medical device company listed on NASDAQ (ticker symbol: LUNG) focusing in interventional pulmonology, planning tools, and treatments for obstructive lung disease.

Mr. Cornell obtained a bachelor's degree in business administration from University of Tennessee in Knoxville, the United States in December 1991.

REPORT OF THE DIRECTORS

The Directors present their report and the audited consolidated financial statements (the "**Consolidated Financial Statements**") of the Group for the Reporting Period.

PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands as an exempted company with limited liability. The shares of the Company have been listed on the Main Board of the Stock Exchange (stock code: 2216) since September 24, 2021.

The Company is a medical device company focused on the development of interventional pulmonology products. The Company is a pioneer in the field of interventional pulmonology, providing innovative lung solutions in China and globally. Leveraging its whole lung access navigation technology and encompassing navigation, diagnosis and treatment, the Company's integrated interventional pulmonology platform addresses the pain points of the existing diagnosis and treatment paradigms and significant unmet medical needs for lung diseases by improving the diagnosis and treatment effects of lung cancer and COPD. There was no significant change in the nature of the Group's principal activities during the Reporting Period and up to the date of this annual report.

Particulars of the Company's major subsidiaries as at December 31, 2022 are set out in note 1 to the Consolidated Financial Statements.

BUSINESS REVIEW

A review of the Group's business during the Reporting Period, which includes a discussion of the principal risks and uncertainties faced by the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the Reporting Period, and an indication of likely future developments in the Group's business, could be found in the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "Corporate Governance Report" in this annual report.

The Group's financial risk management objectives and policies are set out in note 34 to the Consolidated Financial Statements. Details of the significant events that occurred after the financial year ended December 31, 2022 and had an impact on the Group are set out in note 35 to the Consolidated Financial Statements. The review and discussion form part of this Directors' Report.

RESULTS AND DIVIDEND

Details of the consolidated loss of the Group for the Reporting Period and the Group's financial position as at December 31, 2022 are set out in the Consolidated Financial Statements and their accompanying notes on pages 117 to 201.

No dividend was paid or declared by the Company or other members of the Group during the Reporting Period. No shareholder has waived or agreed to waive any dividends.

REPORT OF THE DIRECTORS

FINANCIAL SUMMARY

The Company's Shares were listed on the Stock Exchange on September 24, 2021. A summary of the published results and of the assets, liabilities and equity of the Group for the last four financial years, as extracted from the published audited financial information and financial statements, is set out on page 204 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is highly aware of the importance of environment protection and has not noted any material non-compliance with all relevant laws and regulations in relation to its business including environmental protection, health and safety, workplace conditions, employment and the environment.

The Group has established detailed internal rules regarding environmental protection and adopted effective measures to achieve efficient use of resources, waste reduction and energy saving. For further details of the Group's environmental policies and performance, please refer to the environmental, social and governance report of the Company for the Reporting Period set out on pages 74 to 111, which has been prepared in accordance with Rule 13.91 and the Environmental, Social and Governance Reporting Guide contained in Appendix 27 of the Listing Rules.

RELATIONSHIPS WITH KEY STAKEHOLDERS

The Group actively communicates with stakeholders such as customers, employees, investors and shareholders, governments and regulatory agencies, suppliers and partners, and attaches great importance to the suggestions and feedback of stakeholders, and regards them as an important basis for the Group to improve operations management and sustainable development standards. To fully listen to the voices of stakeholders, the Group has established a variety of communication channels to ensure open and transparent information and efficient communication processes.

We are fully aware that communication with stakeholders is an important and continuous process. In the future, we will continue to improve the communication mechanism, actively respond to the demands of stakeholders, optimize the management and operation standards of the Company, and enhance the sustainable development performance of the Group.

Details of an account of the Company's key relationships with its employees, customers, suppliers and others that have a significant impact on the Company is set out on page 74 in the section headed "Environmental, Social and Governance Report" of this annual report.

REPORT OF THE DIRECTORS

DIRECTORS

During the year ended December 31, 2022 and up to the date of this annual report, the Board consists of the following eight Directors:

Executive Directors

Mr. Guowei Zhan *(Chief Executive Officer)*
Mr. Hong Xu

Non-executive Directors

Mr. Michael Yi Wei Zhao *(Chairman)*
Mr. Zhenjun Zi
Mr. Ao Zhang

Independent Non-executive Directors

Dr. Pok Man Kam
Professor Joseph Wan Yee Lau
Dr. Jian Ji
(resigned with effect from August 30, 2022 due to his personal work arrangement)*
Ms. Yee Sin Wong
(appointed with effect from August 30, 2022)

DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Group are set out on pages 25 to 30 in the section headed "Directors and Senior Management" of this annual report.

Save as disclosed in this annual report, since the publication of the interim report for the six months ended June 30, 2022 of the Company and up to the date of this annual report, there was no change to information which was required to be disclosed by the Directors and senior management members pursuant to Rule 13.51B(1) of the Listing Rules.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation in writing of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors have been independent during the Reporting Period.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and non-executive Directors has entered into a service agreement with the Company under which the initial term of three years shall commence from May 6, 2021 until terminated in accordance with the terms and conditions of the service agreement or by either party giving to the other not less than three months' prior notice.

* Dr. Jian Ji has confirmed that(i) he has no disagreement with the Board; and (ii) there are no matters with respect to his resignation that need to be brought to the attention of the Stock Exchange or the Shareholders.

REPORT OF THE DIRECTORS

Each of the independent non-executive Directors has entered into an appointment letter with the Company. The initial term of their appointment letters commenced from their respective effective date of appointment for a period of three years (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than one month's prior notice in writing.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Company or any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Pursuant to Rule 3.25 of the Listing Rules and the CG Code as set out in Appendix 14 to the Listing Rules, the Company has established the Remuneration Committee to formulate remuneration policies. The remuneration is determined and recommended based on the responsibilities, qualification, position and seniority of each Director and senior management. As for the independent non-executive Directors, their remuneration is determined by the Board based on the recommendation from the Remuneration Committee with reference to factors including the salaries paid by comparable companies, time commitment and responsibilities. The Directors receive compensation in the form of salaries, bonuses, allowances, benefits in kind, pension scheme contributions and equity-settled share option expenses.

Details of the remuneration of the Directors, senior management and the five highest paid individuals are set out in notes 8, 31 and 9 to the Consolidated Financial Statements of this annual report.

None of the Directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors or the five highest paid individuals of the Company as an inducement to join, or upon joining the Group, or as compensation for loss of office.

Except as disclosed above, no other payments have been made or are payable, for the year ended December 31, 2022, by our Group to or on behalf of any of the Directors.

REPORT OF THE DIRECTORS

PERMITTED INDEMNITY PROVISION AND DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

A permitted indemnity provision (as defined in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) in relation to the director's and officer's liability insurance is currently in force and was in force during the Reporting Period.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director nor an entity connected with him/her had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Reporting Period.

MANAGEMENT CONTRACTS

Save for the Directors' service contracts and appointment letters, no contract of significance concerning the management and administration of the whole or any substantial part of business of the Company or any of its subsidiaries was entered into or subsisted during the Reporting Period.

DIRECTORS' RIGHT TO PURCHASE SHARES OR DEBENTURES

As at the end of the Reporting Period, save for the Equity Incentive Plans as disclosed in this report, none of the Directors or their respective spouses or minor children under the age of 18 years were granted with rights, or had exercised any such rights, to acquire benefits by means of purchasing Shares or debentures of the Company. No member of the Group was a party to any arrangements to enable the Directors, or their respective spouses or minor children under the age of 18 years to acquire such rights from any other body corporates.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Reporting Period and up to the date of this report, none of the Directors or their respective close associates (as defined in the Listing Rules) is considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

REPORT OF THE DIRECTORS

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

Save as disclosed in this annual report, the Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

NON-COMPETITION ARRANGEMENTS

No non-competition agreements or arrangement has been provided by the substantial shareholders as at December 31, 2022 or at any time during the Reporting Period.

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

As at December 31, 2022, the interests or short positions of the Directors and chief executives' of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of Director or chief executive	Capacity/Nature of interest	Long position/ short position	Number of Shares	Approximate percentage of shareholding in the Company[1] %
Guowei Zhan[2][5]	Interest in controlled corporation	Long position	2,999,396	0.57
	Beneficial owner	Long position	1,789,200	0.34
Michael Yi Wei Zhao[3][5]	Interest in controlled corporation	Long position	13,021,588	2.47
	Beneficial owner	Long position	4,320,000	0.82
Zhenjun Zi ("**Mr. Zi**")[4][5]	Interest in controlled corporation	Long position	118,628,244	22.52
	Beneficial owner	Long position	2,160,000	0.41
Hong Xu[5]	Beneficial owner	Long position	1,505,912	0.29

REPORT OF THE DIRECTORS

Notes:

(1) The calculation is based on the total number of 526,873,076 Shares in issue as at December 31, 2022.

(2) Mr. Guowei Zhan holds approximately 63.37% interest in Wise Seed Limited, which will beneficially hold 2,999,396 Shares. Accordingly, Mr. Zhan is deemed to be interested in the Shares held by Wise Seed Limited.

(3) St. Christopher Investment Limited is wholly owned by Mr. Michael Yi Wei Zhao. Dinova Healthcare Holding Corporation is owned as to approximately 83.54% by St. Christopher Investment Limited, which is wholly owned by Mr. Zhao. Accordingly, Mr. Zhao is deemed to be interested in the total number of Shares held by each of St. Christopher Investment Limited and Dinova Healthcare Holding Corporation, which will beneficially hold 11,120,564 and 1,901,024 Shares respectively.

(4) Mr. Zi is deemed to be interested in the total number of Shares held by each of Broncus Biomedical Limited, Dinova Healthcare (Hong Kong) Co., Limited, BRS Biomedical Limited, Dinova Healthcare Delta Fund (USD) L.P., Xin Nuo Tong Investment Limited, Dinova Venture Partners GP III, L.P. and Dinova Venture Partners GP IV, L.P., which will beneficially hold 43,741,976, 33,112,752, 14,643,588, 12,861,524, 9,172,328, 3,460,008 and 1,636,068 Shares respectively.

(5) Mr. Guowei Zhan, Mr. Michael Yi Wei Zhao, Mr. Zi and Mr. Hong Xu have vested 1,789,200 Shares, 4,320,000 Shares, 2,160,000 Shares and 1,505,912 Shares, respectively, which were granted to them pursuant to the RSU Scheme and have not been transferred to them as the Company has not received the payment of consideration from the grantees as of December 31, 2022. As such, Mr. Guowei Zhan, Mr. Michael Yi Wei Zhao, Mr. Zi and Mr. Hong Xu, are in aggregate, interested in 4,788,596 Shares, 17,341,588 Shares, 120,788,244 Shares and 1,505,912 Shares, respectively.

Save as disclosed above, as at December 31, 2022, none of the Directors and chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO or which were required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

REPORT OF THE DIRECTORS

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

To the best knowledge of the Company based on the public information, as at December 31, 2022, the interests or short positions of the following persons (other than the Directors and chief executives of the Company) in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO (including interests or short positions which any such persons other than the Directors and chief executives of the Company are taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of Shareholder	Capacity/Nature of interest	Long position/ short position	Number of Shares Interested in the Company	Approximate percentage of shareholding in the Company[1] %
QM12 Limited ("**QM12**")[2]	Beneficial interest	Long position	81,412,808	15.45
Qiming Venture Partners IV, L.P.[2]	Interest in controlled corporation	Long position	81,412,808	15.45
Qiming GP IV, L.P.[2]	Interest in controlled corporation	Long position	81,412,808	15.45
Qiming Corporate GP IV, Ltd[2]	Interest in controlled corporation	Long position	81,412,808	15.45
Broncus Biomedical Limited ("**BBL**")[3]	Beneficial interest	Long position	43,741,976	8.30
Dinova Healthcare Gamma Fund (USD) L.P.[3]	Interest in controlled corporation	Long position	43,741,976	8.30
Dinova Venture Partners GP III, L.P.[3]	Beneficial interest	Long position	3,460,008	0.66
	Interest in controlled corporation	Long position	43,741,976	8.30

REPORT OF THE DIRECTORS

Name of Shareholder	Capacity/Nature of interest	Long position/ short position	Number of Shares Interested in the Company	Approximate percentage of shareholding in the Company[1] %
Dinova Capital Limited[3]	Interest in controlled corporation	Long position	47,201,984	8.96
Xin Nuo Tong Investment Limited[3][4]	Beneficial interest	Long position	9,172,328	1.74
	Interest in controlled corporation	Long position	61,699,576	11.71
Dinova Healthcare (Hong Kong) Co., Limited[5]	Beneficial interest	Long position	33,112,752	6.28
Zhejiang Dinova Ruiying Venture Investment L.P. (浙江德諾瑞盈創業投資合夥企業(有限合夥)) ("**Zhejiang Dinova**")[5]	Interest in controlled corporation	Long position	33,112,752	6.28
Zhejiang Denuo Capital Management L.P. (浙江德諾資本管理合夥企業(有限合夥))[5]	Interest in controlled corporation	Long position	33,112,752	6.28
Hangzhou Denuo Commercial Information Consulting Co., Ltd.(杭州德諾商務資訊諮詢有限公司)[5]	Interest in controlled corporation	Long position	33,112,752	6.28
Computershare Hong Kong Trustees Limited[6]	Beneficial interest	Long position	39,508,788	7.50
Lake Bleu Capital (Hong Kong) Limited	Investment manager	Long position	27,050,824	5.13

REPORT OF THE DIRECTORS

Notes:

(1) The calculation is based on the total number of 526,873,076 Shares in issue as at December 31, 2022.

(2) For the purpose of the SFO, Qiming Venture Partners IV, L.P. (as a 96.94% shareholder of QM12), Qiming GP IV, L.P. (as the general partner of Qiming Venture Partners IV, L.P.) and Qiming Corporate GP IV, Ltd (as the general partner of Qiming GP IV, L.P.) are deemed to be interested in the Shares held by QM12.

(3) For the purpose of the SFO, Dinova Healthcare Gamma Fund (USD) L.P. (as the sole shareholder of BBL), Dinova Venture Partners GP III, L.P. (as the general partner of Dinova Healthcare Gamma Fund (USD) L.P.), Dinova Capital Limited (as the general partner of Dinova Venture Partners GP III, L.P.) and Xin Nuo Tong Investment Limited (as the sole shareholder of Dinova Capital Limited) are deemed to be interested in the Shares held by BBL. For the purpose of the SFO, Xin Nuo Tong Investment Limited and Dinova Capital Limited are deemed to be interested in the Shares held by Dinova Venture Partners GP III, L.P..

(4) Xin Nuo Tong Investment Limited is a 40% shareholder of Dinova Venture Capital Limited, which is the general partner of Dinova Venture Partners GP IV L.P., and Dinova Venture Partners GP IV L.P. is the general partner of Dinova Healthcare Delta Fund (USD) L.P.. In addition, Xin Nuo Tong Investment Limited is also a limited partner holding 39.95% of Dinova Venture Partners GP IV L.P.. For the purpose of the SFO, Xin Nuo Tong Investment Limited is also deemed to be interested in the Shares held by Dinova Venture Partners GP IV L.P. and Dinova Healthcare Delta Fund (USD) L.P..

(5) Dinova Healthcare (Hong Kong) Co., Limited, a company incorporated under the laws of Hong Kong and is wholly owned by Zhejiang Dinova. For the purpose of the SFO, Zhejiang Denuo Capital Management L.P. (浙江德諾資本管理合夥企業(有限合夥)) (as the general partner of Zhejiang Dinova) and Hangzhou Denuo Commercial Information Consulting Co., Ltd. (杭州德諾商務資訊諮詢有限公司) (as the general partner of Zhejiang Denuo Capital Management L.P.) are deemed to be interested in the Shares held by Dinova Healthcare (Hong Kong) Co., Limited.

(6) Computershare Hong Kong Trustees Limited, being the Trustee, holds those Shares on trust for grantees under the RSU Scheme.

Save as disclosed above, as at December 31, 2022, no person (other than the Directors and chief executives) of the Company had or was deemed to have any interests or short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified the Company or the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or which were required to be entered in the register required to be kept by the Company pursuant to Section 336 of the SFO.

CONTROLLING SHAREHOLDERS' INTERESTS IN SIGNIFICANT CONTRACTS

At no time during the Reporting Period had the Company or any of its subsidiaries, and the controlling shareholders or any of their respective subsidiaries of the Company entered into any contract of significance or any contract of significance for the provision of services by the controlling shareholders to the Company or any of its subsidiaries.

REPORT OF THE DIRECTORS

EQUITY INCENTIVE PLANS

Share Option Plan

On May 9, 2021, the Company adopted the Share Option Plan. As no options under the Share Option Plan may be granted after the Listing, the numbers of options available for grant at the beginning and the end of the Reporting Period are nil. As at the date of this annual report, the total number of securities available for issue under the Share Option Plan is 10,036,864, representing approximately 1.90% of the total issued shares of our Company.

1. Summary of Terms

(a) Purpose

The Share Option Plan is intended to promote the interests of the Company by providing eligible persons with the opportunity to acquire an equity interest or otherwise increase their equity interest, as an incentive for them to remain in the service of the Company.

(b) Eligible Participant

The persons eligible to participate in the Share Option Plan are: (1) any officer (whether or not a Director) or employee of the Company or any of its subsidiaries; (2) non-employee members of the Board or the non-employee members of the board of directors of any subsidiary; and (3) consultants and other independent advisors who provide bona fide services to the Company or any subsidiary.

(c) Maximum Entitlement

No Options shall be granted to any one person such that the total number of Shares subject to the Options and any other Options over the Shares (including exercised, cancelled and outstanding Options) granted and to be granted to such person in any 12-month period up to the date of the latest grant exceeds 1% of the Shares in issue from time to time, except with the approval of the shareholders of the Company in general meeting with such person and his/her close associates abstaining from voting.

(d) Exercise Period

Each option shall be exercisable at such time or times, during such period and for such number of Shares as shall be determined by the Board, subject to the special requirements of the Share Option Plan and set forth in the documents evidencing the option. However, no option shall have a term in excess of ten years measured from the date of grant.

(e) Vesting Period

An option will be allocated and granted subject to the performance criteria as set forth at the sole discretion of the Board and the provisions in the Share Option Plan. Each option may contain additional terms and conditions as the Board deems appropriate. The Board may decide to accelerate the vesting schedule of Options at its sole discretion.

If no vesting schedule is specified by the Board, the Participant shall vest in 25% of the Shares issuable upon exercise of an Option upon completion of each successive one year period of continuous Service from the vesting commencement date specified by the Board (through the date that is four years from such vesting commencement date).

REPORT OF THE DIRECTORS

(f) Duration

The Share Option Plan will automatically terminate on the expiration of the 10 year period measured from the date the Share Option Plan is adopted by the Board. Therefore, as at the date of this report, the remaining life of the Share Option Scheme was approximately eight years.

(g) Exercise Price

The exercise price per Share shall be fixed by the Board and, subject to the special requirements of the Share Option Plan. The basis of determining the exercise price is work performance.

(h) Amount Payable on Application or Acceptance of the Option

The consideration payable on acceptance of each grant of options and the period within which payments or calls must or may be made are stimulated in the grant letters.

2. Options Granted

Movements of the outstanding options granted under the Share Option Plan during the Reporting Period are set out below:

			Number of shares underlying options											
Name of Participant or Category of Participant	Date of grant	Closing price of shares immediately before the date on which the options were granted	Outstanding as of the beginning of the reporting period	Granted during the reporting period	Lapsed during the reporting period	Cancelled during the reporting period	Exercised during the reporting period	Outstanding as of the ending of the reporting period	Vesting period	Exercise period	Weighted average closing price of the shares immediately before the dates on which the options were exercised (HKD)	Exercise price (HKD)	Performance targets	Fair value of options at the date
Other employee participants	5/7/2021	As the Shares were not listed at the time of grant, the closing price is not applicable.	9,494,301	0	979,713	21,428	312,248	8,180,912	5/7/2021 or 4 years	12/29/2021-9/16/2029	2.73	1.3426-6.349	N/A	USD0.43-USD0.91
	7/8/2021		298,196	0	0	0	0	298,196	4 years	7/8/2031	N/A	7.4567	N/A	USD0.63
	7/22/2021		1,192,800	0	0	0	0	1,192,800	7/8/2021	7/22/2026	N/A	5.9653	N/A	USD0.91
	8/1/2021		679,264	0	0	164,308	0	514,956	4 years	8/11/2022-8/1/2031	N/A	12.7927	Specific KPI	USD0.50

Note:

(1) Please refer to note 2.4 of Notes to the Consolidated Financial Statements for a description of the basis for fair value measurement and information on whether and how the features of the awards are incorporated into the measurement of fair value and accounting standard and policy adopted.

RSU Scheme

On May 9, 2021, the Company adopted the RSU Scheme, and amended and restated by the Board on July 5, 2021. On September 7, 2021, the Company allotted 9,877,197 Shares to the trustee under the RSU Scheme, representing 39,508,788 Shares after Share Subdivision and the maximum of Shares subject to the RSUs under the RSU Scheme. As the Shares under the RSU Scheme are existing shares, the total number of securities available for issue under the RSU Scheme is 0. The numbers of awards available for grant at the beginning and the end of the Reporting Period are 25,998,648 and 18,323,157. The number of shares that may be issued in respect of options and awards granted under the Equity Incentive Schemes during the Reporting Period divided by the weighted average number of Shares in issue for the Reporting Period is 0.

REPORT OF THE DIRECTORS

1. Summary of Terms

(a) Purpose

The RSU Scheme is intended to reward employees for their past contribution to the success of the Company, and to provide incentives to them to further contribute to the Group.

(b) Eligible Participant

Persons eligible to receive the awards under the RSU Scheme are any employee or officer of the Company or any subsidiary including (without limitation) any executive or non-executive Director in the employment of or holding office in the Company or any subsidiary or consultants and other independent advisors who provide bona fide services to the Company or any subsidiary.

(c) Maximum Entitlement

Except with the approval of shareholders in general meeting, no award may be granted to any one person such that the total number of Shares underlying the RSU Scheme issued and to be issued upon vesting of awards and any other option or awards over the underlying Shares (including exercised, cancelled and outstanding options or awards) granted and to be granted to such person in any 12-month period up to the date of the latest grant exceeds 1% of the Shares in issue from time to time.

(d) Vesting

Subject to the terms of the RSU Scheme and the specific terms and conditions applicable to each award which may be determined at the sole and absolute discretion of the Board from time to time, the RSUs granted to a grantee in an award shall be vested subject to such vesting schedule as set out in the relevant notice of grant, and within reasonable time after the vesting criteria and conditions have been fulfilled, satisfied or waived, the Board will send a vesting notice to each of the relevant grantee.

The price to be paid as consideration for the vesting of any RSU shall be such amount in such form as may be determined by the Board from time to time and as set out in the notice of grant. The basis of determining the price is work performance and market price of the Shares.

(e) Duration

The RSU Scheme shall be valid and effective for a period of 10 years commencing on the date on which the RSU Scheme become unconditional, i.e. the date on which the RSU Scheme is approved by the Board, after which no awards will be granted but the provisions of the RSU Scheme shall in all respects remain in full force. Therefore, as at the date of this report, the remaining life of the RSU Scheme was approximately eight years.

(f) Amount Payable on Application or Acceptance of the Award

The consideration payable on acceptance of each grant of awards and the period within which payments or calls must or may be made are stimulated in the grant letters.

REPORT OF THE DIRECTORS

2. *Awards Granted*

Movements of the outstanding RSUs granted under the RSU Scheme during the Reporting Period are set out below:

			Number of shares underlying awards											
Name of Participant or Category of Participant	Date of grant	Closing price of shares immediately before the date on which the awards were granted (HKD)	Outstanding as of the beginning of the reporting period	Granted during the reporting period	Vested during the reporting period	Lapsed during the reporting period	Cancelled during the reporting period	Exercised during the reporting period	Outstanding as of the ending of the reporting period[2]	Vesting Period	Weighted average closing price of the shares immediately before the dates on which the awards were vested (HKD)	Purchase price (HKD)	Performance targets	Fair value of awards at the date of grant
Directors														
Michael Yi Wei Zhao	5/14/2021	N/A[4]	4,320,000	0	0	0	0	0	4,320,000	6/20/2021	N/A[5]	0.5015	N/A	USD0.91
Zi Zhenjun	5/14/2021	N/A[4]	2,160,000	0	0	0	0	0	2,160,000	6/20/2021	N/A[5]	0.5015	N/A	USD0.91
Xu Hong	5/14/2021	N/A[4]	1,505,912	0	0	0	0	0	1,505,912	6/20/2021	N/A[5]	0.5015	N/A	USD0.91
Zhan Guowei	5/14/2021	N/A[4]	1,789,200	0	0	0	0	0	1,789,200	6/20/2021	N/A[5]	0.5015	N/A	USD0.91
Other grantees	5/14/2021	N/A[4]	3,533,672	0	0	0	0	730,592	2,803,080	6/20/2021	N/A[5]	0.5015	Specific KPI	USD0.91
	7/8/2021	N/A[4]	40,412	0	0	0	0	40,412	0	7/8/2021	N/A[5]	0	Specific KPI	USD1.09
	5/30/2022	2.26	0	1,850,826	1,850,826	0	0	0	1,850,826	5/30/2022	2.26	0	Specific KPI	HKD2.26
	6/13/2022	2.43	0	2,613,064	2,163,064	0	0	0	2,613,064	6/13/2022 or 3 years	2.43	1.63	N/A	HKD0.80-1.24
	9/28/2022	2.09	0	3,000,000	0	0	0	0	3,000,000	5 years	N/A	0 or the average closing price of the Company in the last five trading days prior to January 1 of the year preceding each vesting date*80%	Specific KPI	HKD1.04-2.09
	12/28/2022	2.26	0	211,601	0	0	0	0	211,601	3 years	N/A	0	N/A	HKD2.26

REPORT OF THE DIRECTORS

Notes:

(1) Please refer to note 2.4 of Notes to the Consolidated Financial Statements for a description of the basis for fair value measurement and information on whether and how the features of the awards are incorporated into the measurement of fair value and accounting standard and policy adopted.

(2) The shares have not been transferred to grantees as the Company has not received the payment of consideration (including taxation) from the grantees as of the date of this report.

(3) The exercise period of the awards shall not exceed ten years measured from the date of grant.

(4) As the Shares were not listed at the time of grant, the closing price is not applicable.

(5) As the Shares were not listed at the time of vesting, the closing price is not applicable.

For further details of the Share Option Plan and the RSU Scheme, please refer to the section headed "Statutory and General Information – D. Equity Incentive Plans" in Appendix IV to the Prospectus.

CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the Reporting Period are set out in note 31 to the Consolidated financial Statements contained herein. Save as disclosed in this annual report, none of these related party transactions constitutes a connected transaction or continuing connected transaction as defined under the Listing Rules, and the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules and disclosed in this annual report.

We have entered into, and are expected to continue, certain transactions, which will constitute a non-exempt continuing connected transaction under the Listing Rules. Our Company has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver under Rule 14A.105 of the Listing Rules from strict compliance with the announcement, circular and independent shareholders' approval requirements as applicable in respect of the non-exempt continuing connected transaction. Details of any related party transaction which also constitutes a connected transaction or continuing connected transaction not fully exempted under Rule 14A.73 of the Listing Rules are disclosed below.

REPORT OF THE DIRECTORS

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

License Agreement with NoahTron

Broncus Medical and NoahTron Intelligence Medtech (Hangzhou) Co., Ltd. (諾創智能醫療科技(杭州)有限公司) ("**NoahTron**") entered into a license agreement dated September 7, 2021 (the "**License Agreement**"), pursuant to which Broncus Medical granted to NoahTron a non-sublicensable, non-transferable, non-assignable and non-exclusive license of intellectual property rights related to navigation, diagnostic, and therapeutic technologies in the field of robotic-assisted medical interventions which were acquired by Broncus Medical on and/or before the date of the License Agreement (the "**Relevant IPs**") in certain countries or regions worldwide.

The License Agreement commenced on the date thereof, being September 7, 2021, and shall continue until the expiration of the last to expire of the patent rights licensed under the License Agreement, and NoahTron shall pay Broncus Medical a license fee of US$250,000 per year for ten years. Such licensing fee and term were determined with reference to the licensing fees and term in the license agreement between Broncus Medical and Intuitive Surgical Operations, Inc. ("**ISI**") under which the licensing fee is US$250,000 per year for Broncus Medical granting non-exclusive rights of certain intellectual property rights to ISI. For details about the license agreement between Broncus Medical and ISI, please refer to the section headed "Business – Collaboration and Licensing Arrangements – Collaboration between BMI and Intuitive" to the Prospectus.

Reason for the transaction

The Directors consider the License Agreement to be consistent with the business and commercial objectives of our Group. Due to the close proximity of NoahTron and our Group, NoahTron would be a more reliable partner to practice certain intellectual properties the Group hold.

The Licensing Agreement is of a term longer than three years as otherwise normally permitted for the continuing connected transactions under Rule 14A.52 of the Listing Rules. Our Directors are of the view that the terms of the Licensing Agreement is consistent with normal business practices for agreement of similar nature in the medical devices industry and are in the best interest of our Group and our Shareholders as a whole, mainly because (i) licensing our intellectual property rights to third parties assists the monetization and commercialization of the value of our intellectual property rights; (ii) the License Agreement brings us an additional stable income in next ten years; (iii) NoahTron intends to enter into a license agreement with longer terms as its research and development of robotic surgical systems is not expected to be completed within three years; and (iv) according to the Frost & Sullivan, the length of the License Agreement is in line with the industry norm where parties to such arrangement can utilize different aspects of the intellectual property rights.

Pricing policies

The license fees to be paid by NoahTron is determined after arm's length negotiation between the parties and on normal commercial terms with reference (i) to the prevailing market price rate in respect of similar intellectual properties in the same countries and regions; and (ii) the average license fees of similar intellectual properties in the same countries and regions licensed by our Group in the past, and should be determined on normal commercial terms and no less favorable than the license fees our Group may obtain from NoahTron than from Independent Third Parties.

REPORT OF THE DIRECTORS

Information about NoahTron

NoahTron is a limited liability company established in the PRC on July 10, 2019. It is ultimately owned as to approximately 83.54% by St. Christopher Investment Limited, which is wholly owned by Mr. Zhao, our non-executive Director and the chairman of our Board and therefore will become a connected person of our Company upon Listing pursuant to Chapter 14A of the Listing Rules.

NoahTron is primarily engaged in developing, marketing, and selling robotic surgical systems in the PRC.

Listing Rule implications

The transaction contemplated under the License Agreement is conducted in the ordinary and usual course of business on normal commercial terms, and our Directors currently expect that the highest applicable percentage ratio under the Listing Rules in respect of such transactions will exceed 5% but will be lower than 25% and the consideration under the License Agreement per year is expected to be lower than HK$10 million. Pursuant to Rule 14A.76(2)(b) of the Listing Rules, these transactions will be exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules, but will be subject to reporting, annual review and announcement requirements.

Confirmation from Directors

The Directors of the Company, including independent non-executive Directors, have reviewed and confirmed that the above continuing connected transactions were entered into by the Group: (i) in the ordinary and usual course of its business; (ii) on normal commercial terms or better; (iii) according to the relevant agreement (including the pricing principle and guidelines set out therein) governing them on terms that are fair and reasonable and in the interests the Shareholders as a whole; and (iv) the Company has complied with the pricing guidelines and has adopted internal control measures when determining the prices and terms of the transactions conducted during the year.

Annual cap and basis for annual cap

There is no historical transaction between our Group and NoahTron. The licensing fees under the License Agreement is US$250,000 per year, which was determined with reference to the licensing fees in the license agreement between Broncus Medical and ISI as mentioned above. As such, the annual cap as disclosed in the Prospectus is set as US$250,000 per year for ten years.

For the year ended December 31, 2022, the annual cap was US$250,000 and the actual transaction amount was US$250,000. The Company has confirmed that the execution and enforcement of the License Agreement under the continuing connected transaction set out above has followed the pricing policies of such continuing connected transaction. Save for the information disclosed above, during the Reporting Period, the Group did not enter into any other transactions which constituted connected transactions or continuing connected transactions that were subject to reporting requirements under Chapter 14A of the Listing Rules.

REPORT OF THE DIRECTORS

Conclusions from the Company's Independent Auditor

Pursuant to Rule 14A.56 of the Listing Rules, the Company's auditor was engaged to perform certain procedures in respect of the continuing connected transactions set out above in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed above.

PENSION SCHEME

The employees of the Group's subsidiaries which operate in Mainland China and the United States are required to participate in a central pension scheme operated by the local government. The subsidiaries operating in Mainland China and the United States are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

During the Reporting Period, no forfeited contributions had been used by the Group to reduce the existing level of contributions.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the Reporting Period are set out in note 13 to the Consolidated Financial Statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the Reporting Period are set out in note 26 to the Consolidated Financial Statements.

DISTRIBUTABLE RESERVES

As at December 31, 2022, the reserves of the Company available for distribution to its shareholders amounted to US$379.9 million (2021: US$378.2 million).

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The total net proceeds from the issue of Shares by the Company in its listing on the Stock Exchange amounted to approximately HK$1,620.0 million, after deducting the underwriting commission and other expenses payable by the Company in connection with the Global Offering.

REPORT OF THE DIRECTORS

As at December 31, 2022, the Company has utilized approximately HK$302 million of the proceeds from the Global Offering. There was no change in the intended use of net proceeds and the expected timeline as disclosed in the Prospectus. The balance of the unutilized net proceeds amounted to approximately HK$1,318 million as at the end of the Reporting Period and the Company intends to apply such net proceeds in accordance with the purposes as set out in the table below:

	Approximate % of total net proceeds (%)	Planned use of actual net proceeds HKD'million	Amount of unutilized net proceeds as at 1 January 2022 HKD'million	Amount of utilized net proceeds for the Reporting Period HKD'million	Utilized net proceeds as at the end of the Reporting Period HKD'million	Net proceeds unutilized as at the end of the Reporting Period HKD'million	Expected timeframe for utilizing the remaining net proceeds
Development and commercialisation of InterVapor®	29.0%	469.2	460.4	90.9	99.7	369.5	Expected to be fully utilized by 2030
Development and commercialisation of RF-II	21.0%	339.4	331.0	31.2	39.6	299.8	Expected to be fully utilized by 2030
R&D of other product candidates	18.5%	299.9	280.9	62.8	81.8	218.1	Expected to be fully utilized by 2030
Production line expansion of our manufacturing facility	9.2%	149.2	149.2	0	0	149.2	Expected to be fully utilized by 2026
M&A, investing in or acquiring new pipelines	13.2%	213.2	213.2	0	0	213.2	Expected to be fully utilized by 2026
Working capital and other general corporate purposes	9.2%	149.2	136.4	68.1	80.9	68.3	Expected to be fully utilized by 2026
Total	100.0%	1,620.0	1,570.9	253.0	302.0	1,318.0	

PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public during the Reporting Period and up to the date of this report as required under the Listing Rules.

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

TAX RELIEF AND EXEMPTION

During the Reporting Period and up to the date of this report, the Directors are not aware of any tax relief or exemption available to the Shareholders by reason of their holding of the Company's securities.

RELATIONSHIPS WITH THE GROUP'S CUSTOMERS AND SUPPLIERS

The Group values long standing relationships with its suppliers and customers. The Group aims at delivering high quality products to its customers and developing mutual trust and enhancing communication and commitment between the Group and its suppliers to maintain sustainable growth.

MAJOR CUSTOMERS AND SUPPLIERS

The revenue attributable to the Group's five largest customers and the largest customer accounted for 66.4% and 51.7%, respectively, of the Group's total revenue for the Reporting Period.

Purchases attributable to the Group's five largest suppliers and the largest supplier accounted for 25.8% and 14.0%, respectively, of the Group's total purchases for the Reporting Period.

None of the Directors or any of their close associates (as defined in the Listing Rules) or any shareholders of the Company (whom, to the best knowledge and belief of the Directors, own more than 5% of the Company's total issued share capital) had any beneficial interest in the Group's five largest suppliers and customers for the Reporting Period.

When determining the credit term of a customer or a distributor, we consider a number of factors, including its cash flow conditions and creditworthiness. We have policies in place to monitor and manage the settlement of trade receivables and our subsequent settlement of trade receivables with our top five major customers have been in line with those with our other customers and no provisions are necessary. To monitor the settlement of our trade receivables and avoid credit losses, we conduct annual review of each customer's or distributor's financial performance, which is primarily based on the amount and aging of the trade receivables due from such customer or distributor in the respective period. Pursuant to our distribution agreement, when our distributor fails to make a payment within the credit term, we may, at our discretion, terminate the distribution arrangement or take certain other measures as appropriate.

REPORT OF THE DIRECTORS

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

The Group has compliance policies and procedures in place to ensure adherence to applicable laws, rules and regulations, in particular, those that have a significant impact on it, including the requirements under the Companies Ordinance, the Listing Rules, the SFO and the CG Code for, among other things, the disclosure of information and corporate governance. The Group would seek professional legal advice from its legal advisers to ensure that transactions and business to be performed by the Group are in compliance with the applicable laws and regulations. During the Reporting Period, the Group was not aware of any material non-compliance with any relevant laws and regulations that had a significant impact on it.

MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration during the year ended December 31, 2022. The Directors are also not aware of any material litigation or claims that were pending or threatened against the Group during the year ended December 31, 2022.

RELATIONSHIPS WITH THE GROUP'S EMPLOYEES

The Group believes that employees are important and valuable assets. The Group's employees' remuneration consists of salaries, bonuses, share-based incentive plans, pension scheme contributions and other welfare payments. In accordance with applicable laws in China and other relevant jurisdictions, we have made contributions to social security insurance funds and housing funds for the employees of the Group.

The Group will provide trainings for employees to enhance their knowledge in corporate values and culture and to implement them thoroughly. Meanwhile, the Group encourages staff on continued studies by giving subsidy to recognized development courses. The Group also aims to provide competitive and attractive remuneration packages to retain its employees. Management reviews annually the remuneration package offered to the employees of the Group. Meanwhile, for the purpose of providing incentives and rewards to eligible participants who have contributed to the success of the Group's operations, the Company has adopted the Share Option Plan and RSU Scheme. Details of such schemes are set out in the sub-sections headed "Equity Incentive Plans" in this annual report.

EVENTS AFTER THE REPORTING PERIOD

An indirect wholly-owned subsidiary of the Company has entered into a partnership agreement on March 28, 2023, pursuant to which, it has agreed to subscribe for a capital contribution in the amount of RMB125 million as a limited partner. The partnership fund focuses at investments in the digital medical devices and projects of related industries space, accordingly, it is considered that the aforesaid investment into the fund will be in the interests of the Company and its shareholders as a whole. For further details, please refer to the announcement of the Company dated March 29, 2023.

Save as disclosed above, the Company is not aware of any material subsequent events from December 31, 2022 to the date of this report.

REPORT OF THE DIRECTORS

KEY RISKS AND UNCERTAINTIES

There are certain key risks and uncertainties that may cause the Group's financial conditions or results to materially deviate from the expected or historical results can be categorized into the following areas: (i) risks relating to the development of our product candidates; (ii) risks relating to extensive government regulations; (iii) risks relating to commercialization and distribution of our products; and (iv) risks relating to manufacture and supply of our products. Set out below are the details of the material risks and uncertainties that we face:

Risks Relating to the Development of Our Product Candidates

- Clinical product development involves a lengthy and expensive process with an uncertain outcome, and unsuccessful clinical trials or procedures relating to products under development could have a material adverse effect on our prospects.

- If we encounter difficulties enrolling patients in our clinical trials, our clinical development activities could be delayed or otherwise adversely affected.

- If clinical trials of our product candidates fail to demonstrate safety and efficacy to the satisfaction of regulatory authorities or do not otherwise produce positive results, we may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of our product candidates.

- We have incurred net losses since our inception and may incur net losses for the foreseeable future.

If we are unable to successfully complete clinical development, obtain regulatory approval or CE Marking certification and commercialize our product candidates, or further promote our approved or CE Marked product candidates, or experience significant delays in doing so, our business will be materially harmed.

Risks Relating to Extensive Government Regulations

- All material aspects of the research, development and commercialization of our products are heavily regulated.

- If we are not able to obtain, or experience delays in obtaining, required regulatory approvals or CE Marking certification, we will not be able to commercialize our product candidates in a timely manner or at all, and our ability to generate revenue will be materially impaired.

- Undesirable adverse events caused by our products and product candidates could interrupt, delay or halt clinical trials, delay or prevent regulatory approval or CE Marking certification, limit the commercial profile of an approved or CE Marked label, or result in significant negative consequences following any regulatory approval or CE Marking certification.

REPORT OF THE DIRECTORS

Risks Relating to Commercialization and Distribution of Our Products

- We are subject to the risk of product concentration.
- If our products cause, or are perceived to cause, severe adverse events, our reputation, revenue and profitability could be materially and adversely affected.
- Failure to achieve broad market acceptance or maintain good reputation necessary for our interventional pulmonary products and any future products would have a material adverse impact on our results of operations and profitability.

Risks Relating to Manufacture and Supply of Our Products

- Delays in completing and receiving applicable regulatory approvals for our manufacturing facilities, or damage to, destruction of or interruption of production at such facilities, could delay our development plans or commercialization efforts.
- If we fail to increase our production capacity to meet customer demand, our business prospects could be materially and adversely affected.
- The manufacture of our products is highly complex and subject to strict quality controls. If we or any of our suppliers or logistics partners encounters manufacturing, logistics, or quality problems, including as a result of natural disasters, our business could suffer.

However, the above is not an exhaustive list. Investors are advised to make their own judgment or consult their own investment advisors before making any investment in the Shares.

CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the section headed "Corporate Governance Report" of this annual report.

EQUITY-LINKED AGREEMENT

Save as disclosed in the sub-sections headed "EQUITY INCENTIVE PLANS" in this annual report, no equity-linked agreement was entered into by the Company at any time during or subsisted at the end of the year ended December 31, 2022.

REVIEW BY AUDIT COMMITTEE

During the Reporting Period, the Audit Committee comprises three independent non-executive Directors, namely Dr. Pok Man Kam, Professor Joseph Wan Yee Lau and Dr. Jian Ji. Following Dr. Jian Ji's resignation taking effect on August 30, 2022, Ms. Yee Sin Wong has been appointed as a member of the Audit Committee with effect from August 30, 2022. Dr. Pok Man Kam, being the chairman of the Audit Committee, holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules.

REPORT OF THE DIRECTORS

The Audit Committee has reviewed the audited consolidated financial statements for the year ended December 31, 2022 with the management of the Company. The Audit Committee considered that the annual results are in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management of the Company.

INDEPENDENT AUDITOR

The Consolidated Financial Statements for the Reporting Period have been audited by Ernst & Young who will retire and, being eligible, offer itself for re-appointment at the forthcoming annual general meeting. Having been approved by the Board upon the Audit Committee's recommendation, a resolution for the re-appointment of Ernst & Young as the independent external auditor for the ensuing year will be put to the forthcoming AGM for shareholder's approval.

There has been no change of independent auditor of the Company since the Listing.

By order of the Board
Broncus Holding Corporation
ZHAO Michael Yi Wei
Chairman

Hong Kong, March 29, 2023

CORPORATE GOVERNANCE REPORT

The Board hereby presents to the Shareholders the corporate governance report of the Group for the year ended December 31, 2022 (the "**Corporate Governance Report**").

CORPORATE GOVERNANCE PRACTICES

The Company recognizes the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the Shareholders as a whole. The Company has adopted corporate governance practices based on the principles and code provisions as set out in the CG Code as contained in Appendix 14 to the Listing Rules as its own code of corporate governance practices.

The Board is of the view that during the Reporting Period, the Company has complied with all the applicable code provisions as set out in the CG Code. The Board will continue to review and monitor the code of corporate governance practices of the Company with an aim to maintaining a high standard of corporate governance.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding dealings in the securities of the Company by the Directors, and the Group's employees who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company's securities. Specific enquiries have been made to all Directors and the Directors have confirmed that they have complied with the Model Code during the Reporting Period.

No incident of non-compliance of the Model Code by the employees was noted by the Company during the Reporting Period.

BOARD OF DIRECTORS

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interest of the Company.

The Board should regularly review the contribution required from a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Board Composition

During the Reporting Period and up to the date of this report, the Board comprised eight Directors, consisting of two executive Directors, three non-executive Directors and three independent non-executive Directors as follows:

Executive Directors

Mr. Guowei Zhan *(Chief Executive Officer)*
Mr. Hong Xu

Non-executive Directors

Mr. Michael Yi Wei Zhao *(Chairman)*
Mr. Zhenjun Zi
Mr. Ao Zhang

CORPORATE GOVERNANCE REPORT

Independent Non-executive Directors

Dr. Pok Man Kam
Professor Joseph Wan Yee Lau
Dr. Jian Ji
(resigned with effect from August 30, 2022)
Ms. Yee Sin Wong
(appointed with effect from August 30, 2022)

The biographical information of the Directors are set out in the section headed "DIRECTORS AND SENIOR MANAGEMENT" of this annual report and the relationships between the Directors are disclosed in the respective Director's biography.

Except for the relationships between the Directors set forth in the respective Director's biography under the section headed "DIRECTORS AND SENIOR MANAGEMENT", the Directors do not have financial, business, family or other material/relevant relationships with one another.

Independent Non-executive Directors

During the Reporting Period and up to the date of this report, the Board at all times fulfilled the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing one-third of the board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Board has established mechanisms to ensure independent views and input are available to the Board. The Board ensures the appointment of at least three independent non-executive directors and at least one-third of its members being independent non-executive directors. Further, independent non-executive directors will be appointed to committees of the Board as required under the Listing Rules and as far as practicable to ensure independent views and input are available. The Nomination Committee strictly adheres to the independence assessment criteria as set out in the Listing Rules with regard to the nomination and appointment of independent non-executive directors, and is mandated to assess annually the independence of independent non-executive directors to ensure that they can continually exercise independent judgement. The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Appointment and Re-election of Directors

Each of the executive Directors and non-executive Directors has entered into a service agreement with the Company under which the initial term of three years shall commence from May 6, 2021 until terminated in accordance with the terms and conditions of the service agreement or by either party giving to the other not less than three months' prior notice.

CORPORATE GOVERNANCE REPORT

Each of the independent non-executive Directors has entered into an appointment letter with the Company. The initial term of their appointment letters commenced from their respective effective date of appointment for a period of three years (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than one month's prior notice in writing.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

Responsibilities of the Directors and Management

The Board should assume responsibility for leadership and control of the Company and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

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

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses, for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

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

CORPORATE GOVERNANCE REPORT

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the Reporting Period, all Directors attended training sessions on the respective obligations of the Directors and senior management. In addition, relevant reading materials including legal and regulatory update have been provided to the Directors for their reference and studying.

The record of continuous professional development relating to director's duties and regulatory and business development that have been received by the Directors for the Reporting Period is summarized as follows:

Directors	Type of Training[Note]
Executive Directors	
Mr. Guowei Zhan *(Chief Executive Officer)*	A&B
Mr. Hong Xu	A&B
Non-executive Directors	
Mr. Michael Yi Wei Zhao *(Chairman)*	A&B
Mr. Zhenjun Zi	A&B
Mr. Ao Zhang	A&B
Independent Non-executive Directors	
Dr. Pok Man Kam	A&B
Professor Joseph Wan Yee Lau	A&B
Dr. Jian Ji *(resigned with effect from August 30, 2022)*	A&B
Ms. Yee Sin Wong *(appointed with effect from August 30, 2022)*	A&B

Note:

Types of Training

A. Attending training sessions, including but not limited to briefings, seminars, conferences and workshops

B. Reading relevant news alerts, newspapers, journals, magazines and relevant publications

CORPORATE GOVERNANCE REPORT

Board Diversity Policy

The Board has adopted a board diversity policy (the "**Board Diversity Policy**") in order to enhance the effectiveness of our Board and to maintain a high standard of corporate governance. Our Company recognizes and embraces the benefits of having a diverse Board. Pursuant to the Board Diversity Policy, in reviewing and assessing suitable candidates to serve as a Director of the Company, the Nomination Committee considers a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, language, cultural and educational background, professional qualifications, skills, knowledge, industry and regional experience and/or length of service.

Our Directors have a balanced mixed of knowledge and skills, including but not limited to business management, medical devices, biomaterials, pharmaceuticals, surgery, finance, investment and accounting. They obtained degrees in various majors including medicine, science, chemistry, applied chemistry, polymer chemistry, physics, engineering, risk management, financial engineering, business administration and international finance. Furthermore, our Board has a relatively wide range of ages, ranging from 36 years old to 75 years old. In particular, given that one out of eight of our Directors are female, our Board will, taking into account the business needs of our Group and changing circumstances from time to time that may affect our Group's business plans, use its best endeavors to actively identify female individuals suitably qualified to become our Board members and maintain at least one female Director in our Board.

The Nomination Committee is responsible for reviewing the diversity of the Board. The Nomination Committee from time to time reviews the Board Diversity Policy, develop and review measurable objectives for implementing the policy, and monitor the progress on achieving these measurable objectives in order to ensure that the policy remains effective. Our Company (i) disclosed the biographical details of each Director and (ii) reported on the implementation of the Board Diversity Policy (including whether we have achieved board diversity) in its annual corporate governance report. In particular, our Company will take opportunities to increase the proportion of female members of the Board when selecting and recommending suitable candidates for Board appointments to help enhance gender diversity in accordance with stakeholder expectations and recommended best practices.

0 of 3 of our senior management are female, and we have witnessed a balanced gender ratio in the workforce with a male to female ratio of approximately 1.2:1 as at December 31, 2022. Our Company also intends to promote gender diversity when recruiting staff at the mid to senior level so that our Company will have a pipeline of female senior management and potential successors to the Board. We plan to offer all-rounded trainings to female employees whom we consider to have the suitable experience, skills and knowledge of our operation and business, including but not limited to, business operation, management, accounting and finance, legal and compliance and research and development. We are of the view that such strategy will offer chances for our Board to identify capable female employees to be nominated as a member of the Board in future with an aim to providing our Board with a pipeline of female candidates to achieve gender diversity in our Board in the long run.

CORPORATE GOVERNANCE REPORT

Nomination Policy

The Board has adopted a Nomination Policy with regard to nomination of Directors. The Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. The Nomination Committee will recommend to the Board for the appointment of a Director including an independent non-executive Director in accordance with the following selection criteria and nomination procedures:

(a) identify individuals who are suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, having due regard to the Company's Board diversity policy, the requirements in the Company's constitution, the Listing Rules and applicable laws and regulations, and the relevant candidates' contributions to the Board in terms of qualifications, skills, experiences, independence and gender diversity;

(b) assess the independence of independent non-executive Directors to determine their eligibility with reference to the factors set out in Rule 3.13 of the Listing Rules and any other factors deemed appropriate by the Nomination Committee or the Board. If a proposed independent non-executive Director will be holding their seventh (or more) listed company directorship, to assess his/her ability to devote sufficient time to the Board matters; and

(c) develop the criteria for identifying and assessing the qualifications of and evaluating candidates for directorship, including but not limited to evaluating the balance of skills, knowledge and experience on the Board, and in the light of this evaluation prepared a description of the role and capabilities required for a particular appointment. The Nomination Committee will review the Nomination Policy, from time to time and as appropriate, to ensure its effectiveness.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

We have established the following committees in our Board of Directors: an Audit Committee, a Remuneration Committee and a Nomination Committee. The committees operate in accordance with terms of reference established by our Board of Directors.

All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

Audit Committee

The Audit Committee consists of three independent non-executive Directors, namely, Dr. Pok Man Kam, Professor Joseph Wan Yee Lau and Dr. Jian Ji. Following Dr. Jian Ji's resignation taking effect on August 30, 2022, Ms. Yee Sin Wong has been appointed as a member of the Audit Committee with effect from August 30, 2022. Dr. Pok Man Kam, being the chairman of the Audit Committee, holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules. The primary duties of the Audit Committee are to assist our Board of Directors by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities assigned by our Board of Directors.

During the Reporting Period, the Audit Committee held two meetings to review, among others, the unaudited interim results and financial report for the six months ended June 30, 2022, the financial reporting and the compliance procedures, and the policies and practices on corporate governance, the audited annual results and financial report for the year ended December 31, 2021, the financial, operational and compliance monitoring, the risk management and internal control, the work of the internal and external auditors, the service fees due to the external auditor as well as the re-appointment of external auditors.

The Audit Committee also met the external auditors one time without the presence of the Executive Director.

The attendance records of the Audit Committee are set out under "Attendance Record of Directors and Committee Members".

Remuneration Committee

The Remuneration Committee consists of one non-executive Director, namely, Mr. Michael Yi Wei Zhao, and two independent non-executive Directors, namely, Dr. Jian Ji and Dr. Pok Man Kam. Following Dr. Jian Ji's resignation taking effect on August 30, 2022, Ms. Yee Sin Wong has been appointed as the chairwoman and a member of the Remuneration Committee with effect from August 30, 2022. The primary duties of the Remuneration Committee include, without limitation, making recommendations to the Board of Directors on our policy and structure for the remuneration of all Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration, determining the specific remuneration packages of all Directors and senior management, reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board of Directors from time to time, and reviewing and/or approving matters relating to share schemes under chapter 17 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

During the Reporting Period, one meeting of the Remuneration Committee was held to, amongst others, determine the policy for the remuneration of executive directors, assess performance of executive directors and approve the terms of executive directors' service contracts, make recommendations to the board on the remuneration packages of individual executive directors and senior management. During the Reporting Period, no material matters relating to share schemes (as defined under Chapter 17 of the Listing Rules) required the Remuneration Committee to review or approve.

The attendance records of the Remuneration Committee are set out under "Attendance Record of Directors and Committee Members".

Details of the remuneration of the senior management by band for the year ended December 31, 2022 are set out below:

Remuneration by band (HK$)	Number of person(s)
HK$1,500,001 to HK$2,000,000	2
HK$3,500,001 to HK$4,000,000	1

Nomination Committee

The Nomination Committee consists of one non-executive Director, namely, Mr. Michael Yi Wei Zhao, and two independent non-executive Directors, namely, Professor Joseph Wan Yee Lau and Dr. Jian Ji. Following Dr. Jian Ji's resignation taking effect on August 30, 2022, Ms. Yee Sin Wong has been appointed as a member of the Nomination Committee with effect from August 30, 2022. Mr. Michael Yi Wei Zhao is the chairman of the Nomination Committee. The primary duties of the Nomination Committee include, without limitation, reviewing the structure, size and composition of the Board of Directors, assessing the independence of the independent non-executive Directors, making recommendations to the Board of Directors on matters relating to the appointment of Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience etc. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence, time commitment and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

CORPORATE GOVERNANCE REPORT

During the Reporting Period, one meeting of the Nomination Committee was held to, amongst others, determine the nomination procedures and the process and criteria adopted by the Nomination Committee to select and recommend candidates for directorship during the year.

The attendance records of the Nomination Committee are set out under "Attendance Record of Directors and Committee Members".

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties set out in the code provision A.2.1 of the CG Code.

During the Reporting Period, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

Pursuant to code provision C.5.1 of the CG Code, Board meetings should be held at least four times a year at approximately quarterly intervals with active participation of the majority of the Directors, either in person or through electronic means of communication. During the Reporting Period, four Board meetings were held at approximately quarterly intervals in accordance with code provision C.5.1 of the CG Code, for discussing and approving, among others, the overall strategies and policies of the Company, reviewing and approving the audited annual results for the year ended December 31, 2021, unaudited interim results for the six months ended June 30, 2022, change of composition of the Board and amendments to the term of reference of the Remuneration Committee.

During the Reporting Period, one meeting was held by the chairman with the independent non-executive Directors without the presence of other Directors in accordance with code provision C.2.7 of the CG Code.

CORPORATE GOVERNANCE REPORT

The attendance record of each Director during their tenure of office at the Board and Board Committee meetings and the general meetings of the Company held during the Reporting Period is set out in the table below:

	Attendance/Number of Meetings				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting(s)
Executive Directors					
Mr. Guowei Zhan *(Chief Executive Officer)*	4/4	N/A	N/A	N/A	1/1
Mr. Hong Xu	4/4	N/A	N/A	N/A	1/1
Non-executive Directors					
Mr. Michael Yi Wei Zhao *(Chairman)*	4/4	N/A	1/1	1/1	1/1
Mr. Zhenjun Zi	4/4	N/A	N/A	N/A	1/1
Mr. Ao Zhang	4/4	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Dr. Pok Man Kam	4/4	2/2	1/1	N/A	1/1
Professor Joseph Wan Yee Lau	4/4	2/2	N/A	1/1	1/1
Dr. Jian Ji *(resigned with effect from August 30, 2022)*	2/2	2/2	1/1	1/1	1/1
Ms. Yee Sin Wong *(appointed with effect from August 30, 2022)*	2/2	N/A	N/A	N/A	N/A

RISK MANAGEMENT AND INTERNAL CONTROLS

Risk Management

The Board acknowledges that it is its responsibility to ensure that the Company establishes and maintains sound risk management and internal control systems within the Group and to review the effectiveness of the systems. Such systems are designed to manage and mitigate risks inherent in the Group's business faced by the Group to an acceptable level, but not to eliminate the risk of failure to achieve business objectives, and can only provide reasonable assurance against material misstatement, loss or fraud.

We recognize that risk management is critical to the success of our business. Key operational risks faced by us include changes in the general market conditions and the regulatory environment of the Chinese and global medical device markets, our ability to develop, manufacture and commercialize our products and product candidates, and our ability to compete with other medical device companies. For details of various risks and uncertainties we face, see the section headed "Report of the Directors – Key Risks and Uncertainties" of this annual report. We also face various financial risks. In particular, we are exposed to credit, liquidity, interest rate and foreign exchange risks that may arise in the normal course of our business.

CORPORATE GOVERNANCE REPORT

The main features of risk management and internal control structure of the Company are as follows:

- Heads of major operation units or departments manage risks through identification and mitigating risks identified in accordance with the internal guidelines approved by the Board and the Audit and Compliance Committee;

- The management ensures appropriate actions are taken on major risks affecting the Group's businesses and operations; and

- Internal auditors provide independent assurance to the Board, the Audit and Compliance Committee and the management concerning the effectiveness of risk management and internal control systems.

We have adopted a consolidated set of risk management policies which set out a risk management framework to identify, assess, evaluate and monitor key risks associated with our strategic objectives on an on-going basis. Our Audit Committee and ultimately our Directors supervise the implementation of our risk management policies. Risks identified by our management will be analyzed on the basis of likelihood and impact, and will be properly followed up and mitigated and rectified by our Group and reported to our Directors.

The following key principles outline our Group's approach to risk management and internal control:

Our Audit Committee oversees and manages the overall risks associated with our business operations, including:

- reviewing and approving our risk management policy to ensure that it is consistent with our corporate objectives;

- reviewing and approving our corporate risk tolerance;

- monitoring the most significant risks associated with our business operation and our management's handling of such risks;

- reviewing our corporate risk in light of our corporate risk tolerance; and

- monitoring and ensuring the appropriate application of our risk management framework across our Group.

CORPORATE GOVERNANCE REPORT

Our senior management are responsible for:

- formulating and updating our risk management policy and objectives;
- reviewing and approving major risk management issues of our Company;
- promulgating risk management measures;
- providing guidance on our risk management approach to the relevant departments in our Company;
- reviewing the relevant departments' reporting on key risks and providing feedback;
- supervising the implementation of our risk management measures by the relevant departments;
- ensuring that the appropriate structure, processes and competences are in place across our Group; and
- reporting to our Audit Committee on our material risks.

The relevant departments in our Company, including the finance department, the legal department and the human resources department, are responsible for implementing our risk management policy and carrying out our day-to-day risk management practice. In order to formalize risk management across our Group and set a common level of transparency and risk management performance, the relevant departments shall:

- gather information about the risks relating to their operation or function;
- conduct risk assessments, which include the identification, prioritization, measurement and categorization of all key risks that could potentially affect their objectives;
- prepare a risk management report annually for our chief executive officer's review;
- monitor the key risks relating to their operation or function;
- implement appropriate risk responses where necessary; and
- develop and maintain an appropriate mechanism to facilitate the application of our risk management framework.

We consider that our Directors and members of our senior management possess the necessary knowledge and experience in providing good corporate governance oversight in connection with risk management and internal control.

CORPORATE GOVERNANCE REPORT

Intellectual Property Rights Risk Management

Compliance with applicable PRC and overseas laws and regulations, especially laws and regulations governing the protection of our intellectual property rights and the prevention of liabilities resulting from potential illegal content of publication and intellectual properties infringement are major focus areas of our operational risk management. Our legal department is responsible for approving contracts, monitoring any changes in the applicable laws and regulations and ensuring the ongoing compliance of our operations with the applicable law and regulations.

Our intellectual property department assists in conducting searches to help ensure that all of our intellectual property is under the protection of relevant laws and regulations, and also helps ensure the application for trademark, copyright or patent registrations for, as well as filing with relevant authorities of all of our products. For example, under our internal policies, during the product development phase, our intellectual property department shall assess the potential legal issues surrounding the product being developed. The intellectual property department shall then administer the execution process of obtaining the necessary filings, approvals, and/or licenses. All the contracts of our Company are required to be reviewed and approved by our legal department prior to execution. In addition, we establish policies for intellectual property infringement notices to help ensure timely monitoring the infringement incidents.

Internal Control

Our Board is responsible for establishing our internal control system and reviewing its effectiveness. During the Reporting Period, we regularly reviewed and enhanced our internal control system. Below is a summary of the internal control policies, measures and procedures we have implemented or plan to implement:

- We have adopted various measures and procedures regarding each aspect of our operations, such as protection of intellectual property, environmental protection and occupational health and safety. We provide periodic training on these measures and procedures to our employees as part of our employee training program. We also regularly monitor the implementation of those measures and procedures through our on – site internal control team for each stage of the produce development process.

- Our Directors (who are responsible for monitoring the corporate governance of our Group) with assistance from our legal advisors, have periodically reviewed our compliance status with all relevant laws and regulations.

- We have established the Audit Committee which shall (i) make recommendations to our Directors on the appointment and removal of external auditors; and (ii) review the financial statements and render advice in respect of financial reporting as well as oversee the risk management and internal control procedures of our Group.

- We have engaged Red Solar Capital Limited as our compliance adviser to provide advice to our Directors and management team until the end of the first fiscal year after the Listing regarding matters relating to the Listing Rules. Our compliance adviser is expected to ensure our use of the proceeds from the Global Offering complies with the section entitled "Future Plans and Use of Proceeds" in the Prospectus after the Listing, as well as to provide support and advice regarding the requirements of relevant regulatory authorities in a timely fashion.

CORPORATE GOVERNANCE REPORT

- We maintain strict anti-corruption policies among our sales personnel and distributors in our sales and marketing activities. We also monitor to ensure that our sales and marketing personnel comply with applicable promotion and advertising requirements, which include restrictions on promoting our products for unapproved uses or patient populations, also known as off-label use, and limitations on industry-sponsored scientific and educational activities.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

The Company has established procedures for identifying, handling and disseminating inside information in compliance with the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), including the issue of an inside information disclosure policy, the annual review and update (if necessary) of such inside information disclosure policy, preclearance on dealing in Company's securities by Directors and designated members of the management, notification of regular blackout period and securities dealing restrictions to relevant Directors and employees have been implemented by the Company to guard against possible mishandling of inside information within the Group. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited. The Board is aware of its obligations to announce any inside information in accordance with the Listing Rules.

The Board confirms its responsibilities for risk management and internal control systems, and for reviewing the effectiveness of such risk management and internal control systems. Such systems are designed to manage rather than eliminate the risk of failing to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company has an internal audit function which aims at helping the Company to accomplish its objectives by applying a systematic, disciplined approach to evaluate and improve the effectiveness of the Group's risk management and internal control systems and to resolve material internal control defects.

The Board has reviewed the effectiveness of the internal audit system and the risk management and the internal control system of the Group, including the adequacy of resources, qualifications and experience of staff in the aforementioned systems and of the Company's accounting, internal audit and financial reporting functions and the adequacy of their training programs and budget.

The Board, through a review covering all material controls, including financial, operational and compliance controls for the Reporting Period, considered that the risk management and internal control system of the Group was effective and adequate. The Board will conduct annual review on the risks management and internal control system of the Company.

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2022. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report.

AUDITORS' REMUNERATION

The total fee paid/payable to the independent auditor of the Company, in respect of audit services for the year ended December 31, 2022 is US$362,000. The total fee paid/payable to the independent auditor of the Company, in respect of non-audit services for the year ended December 31, 2022 is nil.

COMPANY SECRETARY

During the Reporting Period, Mr. Wen Hao Wang ("**Mr. Wang**") and Ms. Jeanie Lau, a former Assistant Vice President of Corporate Secretarial Department of SWCS Corporate Services Group (Hong Kong) Limited ("**SWCS**") were the joint company secretaries of the Company. Mr. Wang is primarily responsible for the overall company secretarial matters of our Group and the primary contact person of the Company with Ms. Jeanie Lau. Following the resignation of Mr. Wang as the joint company secretary on March 28, 2022, Ms. Jeanie Lau acts at the sole company secretary of the Company and tendered her resignation with effect from August 30, 2022, and Ms. Yin Kwan Ho ("**Ms. Ho**"), a Vice President of Corporate Secretarial Department of SWCS, as a new delegate from SWCS, has been appointed by the Company to, in place of Ms. Jeanie Lau, act as the sole company secretary of the Company with effect from August 30, 2022. Ms. Ho is a member of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom. The primary contact person of the Company is Ms. Yi Tong Jin, a legal manager of the Company.

The joint company secretaries/company secretary have complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of the relevant professional training during the year.

All Directors have access to the advice and services of the joint company secretaries/company secretary on corporate governance and board practices related matters.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, all resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening Shareholders' General Meetings

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorise). The annual general meeting shall be specified as such in the notices calling it.

CORPORATE GOVERNANCE REPORT

The Board of Directors may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any one or more members holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the paid up capital of the Company which carry the right of voting at general meetings of the Company. The written requisition shall be deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office of the Company, specifying the objects of the meeting and the resolutions to be added to the meeting agenda, and signed by the requisitionist(s). If the Directors do not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to them by the Company.

The Chairperson of the Board of Directors shall take the chair at every general meeting, or, if there be no such chairperson or, if at any general meeting such chairperson shall not be present within 15 minutes after the time appointed for holding such meeting or is unwilling to act, the Directors present shall choose another Director as Chairperson, and if no Director be present, or if all the Directors present decline to take the chair, or if the Chairperson chosen shall retire from the chair, then the members present (whether in person or represented by proxy or duly authorised representative) shall choose one of their own number to be Chairperson.

Procedures for Shareholders to propose a person for election as a Director

For proposal of a person for election as Director, pursuant to Article 16.4 of the Articles of Association, no person shall, unless recommended by the Board, be eligible for election to the office of Director at any general meeting unless during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary notice in writing by a member of the Company (not being the person to be proposed), entitled to attend and vote at the meeting for which such notice is given, of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

Base on this, if a Shareholder wishes to propose a person (the "**Candidate**") for election as a Director at a general meeting, he/she shall deposit a written notice at the Company's principal place of business in Hong Kong at 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong. The notice must (i) include the personal information of the Candidate as required by Rule 13.51(2) of the Listing Rules; and (ii) be signed by the Shareholder concerned and signed by the Candidate indicating his/her willingness to be elected and consent of publication of his/her personal information.

Putting Forward Proposals at General Meetings

There are no provisions in the Articles of Association or in the Companies Law of the Cayman Islands for putting forward proposals of new resolutions by Shareholders at general meetings. Shareholders who wish to move forward a resolution may request the Company to convene a general meeting in accordance with the procedures mentioned above. For proposing a person for election as a Director, please refer to the procedures set out in the preceding paragraph.

CORPORATE GOVERNANCE REPORT

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may supervise the operations of the Company, and to make suggestions and enquiries accordingly.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to ir@broncuschina.com or submit at https://www.broncus.com/dist/index.html#/investor. Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Corporate communication of the Company will be provided to Shareholders to facilitate Shareholders' understanding. Shareholders have the right to choose the language (either English or Chinese) or means of receipt of the corporate communications (in hard copy or through electronic means).

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. For this purpose, the Company has set up a website (www.broncus.com), where relevant latest information, the up-to-date state of the Company's business operation and development, the Company's financial information and corporate governance practices and other data are available to the public.

In addition, the Company has in place a shareholders' communication policy to ensure that Shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

The implementation and effectiveness of the shareholders' communication policy has been reviewed by the Board during the year ended December 31, 2022 and considered that it is adequate and effective, having considered the communication channels in place provided Shareholders and investment community with information about the latest development of the Group in a timely manner, and the Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders to allow the Company to receive feedback effectively.

The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

CHANGES TO THE CONSTITUTIONAL DOCUMENTS

The Company adopted amended and restated Memorandum and Articles of Association on September 7, 2021 which has been effective from the Listing Date. During the Reporting Period, no changes have been made to the said Memorandum and Articles of Association. The Memorandum and Articles of Association is available on the websites of the Company and the Stock Exchange.

On March 29, 2023, the Board has proposed to amend the Memorandum and Articles of Association and to adopt the amended and restated Memorandum and Articles of Association incorporating the amendments (the "**Proposed Amendments**") for the purpose of, among others, (i) bringing the Memorandum and Articles of Association in line with the Core Shareholders Protection Standards as set out in Appendix 3 to the Listing Rules; and (ii) allowing all general meetings to be held in the format of physical, electronic or hybrid meetings. Other minor amendments to the Memorandum and Articles of Association relate to corresponding and house-keeping changes.

CORPORATE GOVERNANCE REPORT

The Proposed Amendments and the adoption of the amended and restated Memorandum and Articles of Association are subject to Shareholders' approval by way of a special resolution at the AGM. A circular containing, among other things, particulars relating to the Proposed Amendments and the adoption of the amended and restated Memorandum and Articles of Association together with a notice convening the AGM will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

DIVIDEND POLICIES

Subject to the applicable laws of the Cayman Islands and the Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes, no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be payable at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

CORPORATE GOVERNANCE REPORT

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

Broncus Holding Corporation and its subsidiaries (hereinafter "Broncus", "the Company" or "We") sincerely issue the 2022 Environmental, Social and Governance ("ESG") Report (the "Report") to disclose our ESG-related strategies, practices, measures and achievements in 2022 to governments and regulatory authorities, shareholders and investors, employees, customers and other stakeholders.

This Report is prepared in accordance with the *Environmental, Social and Governance Reporting Guide* (the "ESG Reporting Guide") contained in Appendix 27 of the Main Board Listing Rules of Hong Kong Exchanges and Clearing Limited ("HKEX"). Unless otherwise stated, the Report covers the main business of Broncus in China, and the environmental key performance indicators (KPIs) include information on our main manufacturing sites and offices in Hangzhou, Shanghai, Shenzhen, Beijing and Guangzhou. In the future, we will disclose the information on other operating areas as appropriate. This Report covers the period from January 1, 2022 to December 31, 2022 (the "Reporting Period").

The reporting principles under the *ESG Reporting Guide* that underpin the preparation of this report include:

"Materiality": The Company has identified material ESG issues through stakeholder engagement and materiality assessment and made targeted disclosure in the ESG Report.

"Quantitative": This Report adopts quantitative information to disclose the KPIs in the environmental and social aspects. And quantitative information should be accompanied by a narrative, explaining its purpose and impact.

"Consistency": Unless otherwise stated, the report adopts methodologies consistent with those for the 2021 ESG Report to allow for comparability of information. Changes (if any) or any other relevant factors that may affect meaningful comparisons with prior disclosures have been described in the corresponding paragraphs.

"Balance": This Report follows the balance principle to objectively present the Company's ESG management performance.

I. ESG GOVERNANCE

Attaching great importance to social responsibility and ESG management, Broncus has established a sound ESG mechanism to share the corporate development value with society and the environment.

As the top responsible body for ESG management, the Board of Directors oversees and reviews ESG-related matters. With ESG governance fully implemented in accordance with the *ESG Reporting Guide* of the HKEX, the Board of Directors reviewed the effectiveness of ESG risk management and internal control systems. The Board of Directors has performed work to evaluate, prioritise and manage ESG-related matters. Please refer to "Stakeholder Engagement" and "Materiality Assessment" sections of this Report for details.

The Report discloses in detail Broncus' progress and achievements of 2022 ESG work and was reviewed and approved by the Board of Directors on March 29, 2023.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ESG Management

With the established three-level ESG governance structure that consists of the Board of Directors, senior management and ESG working group, the Company specified roles of each level and solidified the ESG management and supervision responsibilities, to ensure a scientific and systematic ESG management.

- ***Board of Directors***

  As the highest responsible body for overseeing the Company's ESG-related matters, the Board of Directors formulates and regularly reviews ESG management strategies and objectives; reviews and approves the ESG risks and opportunities assessed and the ESG management approaches formulated by senior management; reviews and discusses major ESG risks and risk responses; and examines and approves information disclosed in the ESG Report.

- ***Senior Management***

  Senior management is responsible for assessing and determining ESG risks related to the Company's businesses, developing ESG management approaches, and ensuring the effectiveness of ESG risk management and internal control systems, and reports to the Board of Directors on ESG management.

- ***ESG Working Group***

  Composed of ESG-related departments, the ESG working group is responsible for implementing strategies and ESG management policies formulated by the Board of Directors and senior management, carrying out ESG management and preparing ESG Report, then presenting progress on ESG management and reporting to senior management.

2. Stakeholder Engagement

We believe that effective stakeholder engagement is particularly important for the long-term development of the Company, and we have fully considered the impact of the Company's operations on our stakeholders. The Company's key stakeholders include shareholders and investors, governments and regulatory authorities, employees, customers and patients, suppliers, partners, and communities and the public. We maintain close relationships with our stakeholders by establishing various communication channels, and learn their expectations and suggestions to formulate and adjust ESG-related management measures.

Stakeholders	Issues of concern	Major communication channels
Shareholders and investors	Investment return Governance compliance Risk management	General Meeting of Shareholders Information disclosure Road show
Governments and regulatory authorities	Risk management Product quality control Access to healthcare	Institutional inspection Policy implementation Information disclosure

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Stakeholders	Issues of concern	Major communication channels
Employees	Employee compensation and benefits Talent development and cultivation Occupational health and safety Diversity and equality	Employee training Internal communication channels Employee activities
Customers and patients	Protection of intellectual property rights Privacy and data protection Product and service quality Marketing compliance	Customer surveys Customer satisfaction survey
Suppliers	Supply chain management Environmental and social risks management of the supply chain	Supplier assessment Contract performance Communication with suppliers
Partners	Industry development and win-win cooperation	Communications and exchange visits Industry forums
Community and the public	Community and public welfare	Voluntary services Community activities

3. Materiality Assessment

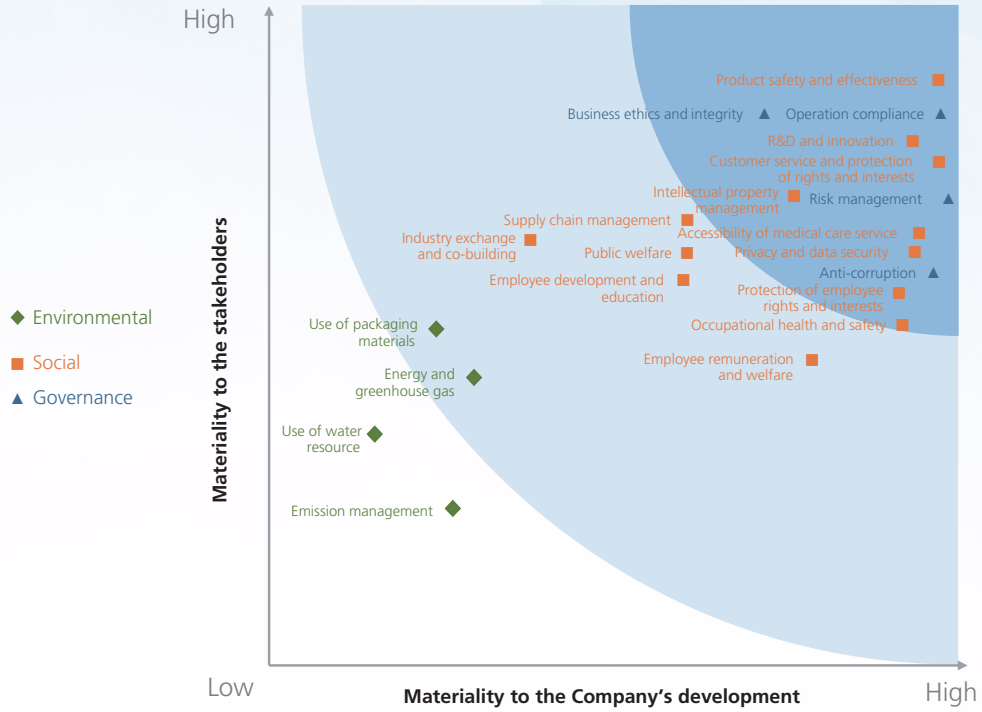
In order to better understand the stakeholders' expectations on our ESG performance, as guided by the *ESG Reporting Guide* of the HKEX, we managed to identify, analyse and summarise ESG issues relevant to the Company, after considering industry development trends, company business characteristics and management feedback. Also, we ranked such issues based on their priority, and developed the matrix of material ESG issues. Management of ESG issues of most significance to company development and stakeholders will be our top priority.

Step 1 – Identification: Following the *ESG Reporting Guide*, we identified 21 ESG issues based on industry development trends, company business models and management feedback, and classified them into aspects of social, environmental and governance.

Step 2 – Assessment: By conducting surveys and interviews, and inviting internal and external stakeholders to fill in questionnaires, we assessed ESG issues from two aspects of "materiality to the Company's development" and "materiality to the stakeholders" and developed the matrix of material ESG issues.

Step 3 – Verification: Senior management and the ESG working group reviewed and verified the ESG assessment results.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



Material ESG issues of Broncus

II. PRODUCT RESPONSIBILITY

Committed to becoming a global leader in the transformation of lung disease treatment, Broncus strives to bring safe, accessible and reliable products and services to customers and patients worldwide by advancing R&D and innovation, ensuring product quality and safety, improving medical service quality and safeguarding the rights of patients and customers.

1. R&D and Innovation

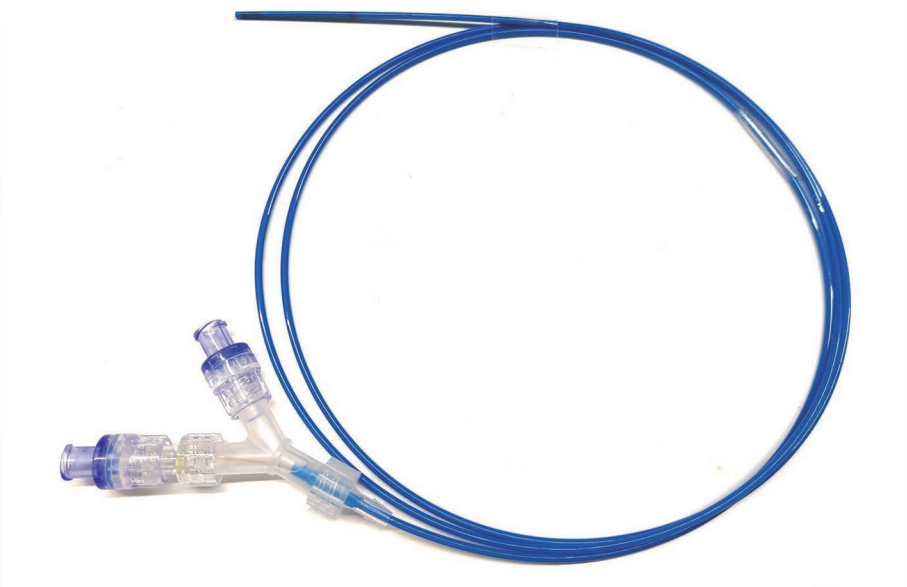
Innovation is the driving force for Broncus' rapid development. By leveraging international technologies and local R&D advantages, the Company makes continued efforts to improve R&D efficiency and actively builds an innovative organisation. The Company actively deploys precision and minimally invasive interventional diagnosis and treatment products for lung diseases, including lung cancer and chronic obstructive pulmonary disease (COPD), based on the augmented reality (AR) whole-lung navigation technology platform. The real-time image whole-lung access navigation technology owned by the Company is unique in the world, and our products, i.e., LungPoint, the first-generation AR navigation device, LungPoint Plus, an upgraded version of LungPoint, and LungPro, a whole-lung treatment navigation device, have all obtained marketing approvals from U.S. Food and Drug Administration (FDA), European CE certification and National Medical Products Administration (NMPA). The Company's core product, InterVapor®, is the world's first Thermal Vapor Treatment System for treating lung diseases such as COPD and lung cancer. Following its launch in major European countries, including the United Kingdom, Germany, Switzerland, Italy and 12 countries/regions in Asia Pacific, InterVapor® was cleared for marketing by the NMPA in China in March 2022, bringing an internationally recognised interventional treatment option to domestic patients with COPD.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Case: Nebulizing Micro-Catheter breaks new ground for application of drug-device combination

In October 2022, the Company's first innovation in the field of drug-device combinations, "Mist Fountain™", a disposable nebulizing micro-catheter for endoscope ("Nebulizing Micro-Catheter"), obtained marketing approval from the Zhejiang Medical Products Administration, which is currently the only approved nebulizing micro-catheter product in China.

When used in conjunction with a bronchoscope, the Nebulizing Micro-Catheter can deliver the drug in fine mist form to the lesions, under the guidance of the navigation system, so that the drug and the local lesions can be thoroughly contacted to achieve a better therapeutic effect. The catheter itself is made of safe materials with high drug compatibility, can be used to adapt to a variety of drugs, and can be applied to the treatment of a wide range of diseases. The front-end of the catheter's microfluidic chip has adopted a blunt-rounded design to allows doctors to smoothly slide the catheter, which can reduce the risk of damaging the bronchial wall. In the future, the Company will cooperate with clinical experts and biopharmaceutical enterprises to actively explore the application of the Nebulizing Micro-Catheter in anaesthesia of bronchoscopy surgery, tuberculosis treatment and targeted drug delivery for oncology, in an effort to cover a wider range of lung disease treatments.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Professional R&D talents are the backbone for our rapid progress. To stimulate employees' enthusiasm for innovation and recognise significant innovative contributions, the Company has formulated and implemented the *Reward and Punishment System for Intellectual Property* and set up a number of awards, such as the "Innovation Achievement Reward", "Technology Invention Reward", "Best New Performer" and "Best Contribution Reward" to award employees who actively engage in technology innovation and make invention and creation. In 2022, the Company presented innovation incentive rewards to 32 employees. In addition, by providing multi-level and diversified trainings, the Company taps talent potential and lifts up employees' initiative in R&D project management.

Broncus' award ceremony for innovation incentives

In 2022, our R&D and innovation capabilities had been recognised by the society:

Innovation and R&D awards and recognition in 2022

Hangzhou Innovative SME 2022

Granted by: Hangzhou Municipal Commission of Economy and Informatization

Innovative and Quality Medical Device Maker in Hangzhou

Granted by: Hangzhou Municipal Commission of Economy and Informatization

Project to be Funded by the Special Project for High-quality Development of Biomedical Industry in Hangzhou 2022

Granted by: Hangzhou Science and Technology Bureau

Xueqiu Annual Gold List – Top 100 Most Promising Listed Companies

Granted by: Xueqiu.com

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. Comprehensive Quality Management

- ***Quality Management System***

  Strictly following the *Product Quality Law of the People's Republic of China*, the *Good Manufacturing Practice for Medical Devices*, the *Measures for Supervision and Administration of Medical Device Production, Regulations on the Supervision and Administration of Medical Devices*, etc., as well as the international quality standards of the U.S. FDA and the EU Medical Device Regulation (MDR), we established a set of quality management system in line with China, U.S. and EU standards, and obtained the ISO13485:2016 Medical Devices – Quality Management System certification. The Company formulated and periodically updated standard procedure documents including the *Quality System Procedure*, the *Quality Manual,* the *Quality Objective* and the *Internal Quality Audit*, covering the whole life cycle of product R&D, production, inspection, supplier management and post-marketing supervision. In 2022, we developed the *Software Defect Handling and Tracking Procedures*, the *Software Configuration Management Procedures* and the *Traceability Analysis Procedures* to improve the quality and safety management during the development, configuration, maintenance and update of medical device software products.

bsi.

By Royal Charter

Certificate of Registration

QUALITY MANAGEMENT SYSTEM - ISO 13485:2016

This is to certify that:

Broncus Medical, Inc.
125 Nicholson Lane
San Jose
California
95134
USA

Holds Certificate No: **FM 701870**

and operates a Quality Management System which complies with the requirements of ISO 13485:2016 for the following scope:

The design, development, manufacture, and distribution of virtual bronchoscopic navigation software and systems, and sterile devices including aspiration needles, introducer sheaths, dilation balloons, and RF catheters for interventional pulmonology.

For and on behalf of BSI:

Stewart Brain, Head of Compliance & Risk - Medical Devices

Original Registration Date: 2005-09-08
Latest Revision Date: 2019-05-07

Effective Date: 2019-05-07
Expiry Date: 2022-05-06

Page: 1 of 1

..making excellence a habit."

This certificate remains the property of BSI and shall be returned immediately upon request.
An electronic certificate can be authenticated online. Printed copies can be validated at www.bsigroup.com/ClientDirectory
To be read in conjunction with the scope above or the attached appendix.

Americas Headquarters: BSI Group America Inc., 12950 Worldgate Drive, Suite 800, Herndon, VA 20170-6007 USA
A Member of the BSI Group of Companies.

ISO13485:2016 Quality Management System certification granted to Broncus

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- ***Quality Culture***

  A good quality culture is the foundation for building a mature quality management system. To promote quality awareness among all our employees, the Company conducts regular trainings to help employees learn applicable laws and regulations as well as internationally recognised standards, ensuring that they keep abreast of the latest industry regulatory trends, are familiar with regulations and are qualified for their positions. Besides, we encourage our employees to make suggestions for improving the Company's production process. "Brilliant Ideas" is held monthly to gather improvement suggestions from all departments, and those whose proposals are adopted will be rewarded.

Training on the good manufacturing practice for medical devices

- ***Clinical Project Management***

  The Company formulates and regularly updates the *Project Management Plan* and the *Monitoring Plan* for clinical research projects, and manages the team composition, overall operation, quality control, data management, adverse event response, results delivery and data archiving in a prudent and comprehensive manner. Before launching a project, we set up a project team consisting of experts from the Company, pilot clinical centre and third-party companies, while determining the responsibilities of team members and project timeline. Through monthly reports, regular meetings and ad-hoc meetings, we timely report our project progress to and communicate problems encountered with relevant departments.

  In addition, the project manager develops project quality control plans, our internal quality control officers, project team quality control officers, clinical research associates (CRA), and third-party auditors implement quality control based on the project quality control plans, then conduct on-site visits and monitoring throughout the project cycle, as well as launch training sessions for project team personnel to ensure that the clinical projects are compliant and scientifically effective.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- ***Production Control***

  The Company's production workshops implement "5S" management year-round, posting dress code diagrams of protective clothing and strictly controlling its exposure to dust particles and micro-organisms, ensuring product quality and improving productivity by maintaining a clean production environment.

5S management practice of Broncus

Dress code for entering clean production area

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company uses non-toxic, non-hazardous and recyclable dialysis bags to package products. The inner layer of dialysis bag is made of medical sterilisation packaging materials, which effectively forms a microbial barrier, preventing sterilised medical device from external microbial contamination for a certain period, and making sure that the medical device is relatively sterile before use.

- ***Post-marketing Supervision***

  In accordance with the *Administrative Measures for the Monitoring and Re-evaluation on the Adverse Events of Medical Devices*, the *Administrative Measures for Medical Device Recalls*, and the U.S. Federal Regulations *Medical Device Reporting* and other advisory notices under China, U.S. and European systems related to medical devices, the Company has developed and implemented several systems including the *Post-marketing Supervision* and the *Adverse Event Reporting*. After launching products, the Company conducts customer communication and research on a regular basis, monitors and collects adverse events, promptly assesses the nature of the events and submits reports to the National Medical Device Adverse Event Monitoring Information System within the specified time, and takes appropriate measures to minimise risks and prevent similar incidents from happening again.

  To safeguard the health and safety of patients, users and other relevant parties, the Company formulated a standard system, *Advisory Notices and Recalls*, regulating the implementation procedures for product recalls or other corrective measures. Based on the analysis of post-marketing supervision feedback, the Company will initiate a recall procedure and take the necessary field safety corrective actions (FSCA) for medical devices that fail or degrade in performance and may pose a health hazard.

3. Complaint and Recall

- ***Products Recall***

  In case the recall procedure is confirmed, our Quality Assurance Department will thoroughly review product-related information, define the recall level in accordance with regulations on product recall level as specified by the National Medical Products Administration, and set up a recall team consisting of representatives from Quality Assurance, Legal Affairs, Marketing, Registration, R&D, Operation and Procurement departments in a timely manner. The recall team is responsible for developing a recall plan and sending notices to dealers and direct customers affected by means of facsimiles, express delivery and letters. The destruction of the products recalled will be under the supervision of the medical products regulator. In the recall process, the Company will submit the *Report on Implementation of Recall Plan* to local regulator on a regular basis and submit the *Summary Report of Medical Device Recall* to the medical products regulator within 10 days upon completion of the recall process. During the Reporting Period, no delivered products were recalled due to quality issues or safety and health reasons.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- ***Product Complaint***

  In strict compliance with the *Law of the People's Republic of China on Protection of Consumers' Rights and Interests*, the *Law of the People's Republic of China on Product Quality* and other laws and regulations, we are open-minded to hear from our customers, thus improving the quality of our products and services. We take the initiative in communication with customers by means of visit, discussion, training activities, phone calls or trade show to learn customer demands. We have published standardised procedures of *Solution to Complaints* to ensure that all product complaints are subject to recording, evaluation, investigation, supervision, reporting and trend analysis as regulated. During the Reporting Period, the Company got 8 customer complaints in total, all of which had been settled.

4. Intellectual Property Management

Adhering to the intellectual property (IP) management principle of "promote upgrading and development with scientific and technological innovation, protect industrial strength with IP management", Broncus puts continuous efforts into establishing a sound IP management system. The Company pursuant to the *Patent Law of the People's Republic of China*, the *Trademark Law of the People's Republic of China*, the *Copyright Law of the People's Republic of China*, the *Anti-Unfair Competition Law of the People's Republic of China* and other IP related local laws and regulations. With reference to the *Enterprise Intellectual Property Management* (GB/T 29490-2013), we has prepared the *Work Manual for Intellectual Property Management* to establish a sound IP management system, defining IP management responsibilities of employees in each department and at each level. Meanwhile, the Company raises employees' IP protection awareness by regularly conducting IP training and popularisation for all. Especially, for positions closely related to IP, we ensure relevant employees are equipped with necessary knowledge, skills and experience through examination and performance evaluation, etc.

As of December 31, 2022, Broncus held the following IPs:

Type	Quantity
Patent for invention	147
Patent for utility model	261
Design patent	56
Trademark	95
Total	559

The Company not only protects our IPs, but also respects those of others. For this purpose, the Company has developed the *Risk Control Procedures of Intellectual Property* to check our R&D projects for any infringement of IP regularly, analyse potential risks, and develop preventive plans or take corresponding measures to mitigate risks of infringement of IP. During the Reporting Period, no lawsuit related to IP occurred.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

5. Advertising and Labelling

Broncus abides by laws, regulations and industrial practices of the regions where it operates, such as the *Advertising Law of the People's Republic of China, Interim Measures for Examination and Administration of Advertisements for Drugs, Medical Devices, Health Food and Formula Food for Special Medical Purposes, Federal Trade Commission Act* of USA and *Honest Ads Act* of USA. The Company has established internal systems related to marketing, advertising and sales such as *Internal Audit Process for Advertising Placement, Marketing Sample Trial Process, Marketing Application Process*, which require all marketing contents and forms to be compliant and appropriate; prohibit exaggerated, false or misleading contents, so as to ensure accurate information presentation.

6. Privacy and Data Protection

Broncus is committed to protecting information, business secrets and personal privacy of itself and its customers. In strict compliance with the *Data Security Law of the People's Republic of China* and the *Personal Information Protection Law of the People's Republic of China*, the Company sets up a strict information security control process and takes measures like firewall, VPN, Bastion Host, access permission and encryption to prevent data leakage risks.

In addition, the Company will make every effort to protect private data of patients, promise to collect patients' data only for legitimate and reasonable purposes and protect all confidential business-related data and patient privacy against any unauthorised storage or processing. The Company will sign the *Informed Consent Form* with all clinical subjects participating in clinical trials sponsored by the Company, as required by law, before a clinical trial is conducted. The template for the *Informed Consent Form must* be reviewed and approved by the Ethics Committee of clinical trial centres. It shall explicitly disclose that clinical subjects' private data such as medical records will be properly handled and preserved in accordance with the requirements of the *Good Clinical Practice for Medical Devices* and related regulations, and anyone irrelevant to clinical research has no access to medical records, except for related researchers, Ethics Committee, inspectors, auditors and medical administration personnel. All subjects' names and other identification information are replaced with codes. Clinical research projects are managed by a strict process for releasing information to the public. When clinical trial results are released, the subjects' identity information will remain confidential.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Case: Network information security training

In 2022, the Company provided 2 online information security trainings for all employees, mainly covering three contents: general information security knowledge, development trend and challenges of information security, and basic skills for security and protection of personal information. We emphasised the importance of taking responsibility for information security, popularised related laws and regulations, detailed notes on the use of information and equipment, and taught preventive measures against viruses, network fraud, and phishing emails, so as to enhance employees' responsibility awareness of data security.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

III. EMPLOYEE RESPONSIBILITY

Diversified and competent talents are the core driving force for Broncus' high-quality development. We are committed to creating a fair and inclusive working place, providing competitive salaries and benefits, building a sound training and development system for employees, and thus to enable them to fulfil their purposes and advance with the Company.

1. Employment and Labour Standards

- ***Recruitment and Dismissal***

  We strictly comply with the *Labour Law of the People's Republic of China*, the *Labour Contract Law of the People's Republic of China* and other related laws and regulations in places where we operate. We have detailed the internal management systems for recruitment, dismissal, working hours, rest periods, compensation and benefits, assessment, promotion and professional ethics in the *Employee Manual* to protect employees' rights and interests in equal opportunities, diversity, anti-discrimination and other benefits and welfare. We select most competent employees based on their work ability, experience, professional level and professional ethics. The conclusion, modification, rescission and termination of employment contracts shall be subject to related laws, regulations and policies. The Company has formulated clear procedures for termination and modification of labour relations and dismissal. No arbitrary dismissal is allowed to protect employees' rights and interests.

  The Company firmly prevent child labour or forced labour in any form. To ensure no child labour or forced labour are employed, we conduct background checks on employees upon enrolment. In the event that a suspected case is discovered, it would be reported to senior management for immediate follow up action. During the Reporting Period, no child labour or forced labour were discovered.

- ***Working Hours and Holidays***

  The Company adopts the standard working hours system and encourages employees to schedule work reasonably. Employees shall apply to their manager or senior management at director level or above for work overtime in advance and take leave in lieu of the approved work overtime. Employees working overtime for 4+ hours can get meal subsidies. Employees are provided a wide variety of time-away options, such as public holidays, paid annual leave, paid sick leave, personal leave, marriage leave, maternity leave, paternity leave, breastfeeding leave and funeral leave, to increase their happiness.

- ***Equal Opportunity, Diversity and Anti-discrimination***

  We respect all employees and job seekers for their differences. The Company insists on creating an equal, diversified, fair and just working environment and providing equal opportunities to all employees in terms of recruitment, employment, remuneration and benefits, training, evaluation and promotion. We prohibit any discrimination on the basis of gender, age, race, ethnicity, nationality, marital status, religious belief, physical disability, etc.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As of December 31, 2022, there were 376[1] employees all of whom were full-time employees. Set out below is the detailed employee structure:

	Unit	FY2022
By gender		
Male	Person	205
Female	Person	171
By age		
18 – 25 years old	Person	50
26 – 30 years old	Person	131
31 – 40 years old	Person	128
Over 40 years old	Person	67
By geographical region		
Mainland China	Person	310
Hong Kong, Macao and Taiwan	Person	2
Overseas	Person	64

	Unit	FY2022
Employee turnover rate[2]	%	25.80
By gender		
Male	%	26.34
Female	%	25.15
By age		
18 – 25 years old	%	36.00
26 – 30 years old	%	23.66
31 – 40 years old	%	28.13
Over 40 years old	%	17.91
By geographical region	%	
Mainland China	%	28.06
Hong Kong, Macao and Taiwan	%	0.00
Overseas	%	15.63

1 Number of employees includes employees at the Company's China and U.S. operations

2 Formula of turnover rate: turnover rate of a category = number of dismission of the category/total employees of the category* 100

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. Health and Safety

We strictly abide by laws and regulations such as the *Work Safety Law of the People's Republic of China* and the *Law of the People's Republic of China on the Prevention and Control of Occupational Diseases* and establish a series of systems related to occupational health and safety, to ensure the occupational health and safety for our employees. The Company sets up the *Safety*, *Health and Environment System Procedures* based on ISO14001 international standard and built an all-round Safety, Health & Environment (SHE) framework. This framework consists of senior management, production safety leaders and safety inspectors, taking charge of the practical implementation of management policies related to safety, occupational health and environmental protection in production.

Meanwhile, the Company establishes control procedures for risk points of health and safety in operation, so as to protect employees' health and safety:

- **Occupational safety standards:** The Company has set up the *Safety Specification*, which clarifies the code of conduct in the office and production area, and the use and arrangement requirement of items, so as to prevent any injury.

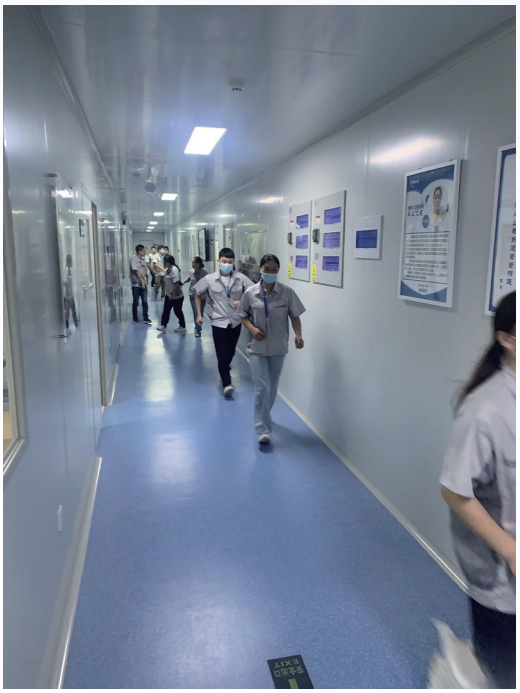
- **Use of protective equipment:** For production activities with high risk level, we have also developed the *Procedures for Personal Protective Equipment* (PPE) to ensure that our employees and related parties (contractors and contract workers) are protected through proper use of PPE during production.

- **Hazardous chemicals management:** The Company has established the *Hazardous Goods Handling Procedures*, in which provisions on procurement, storage, use and emission treatment of hazardous goods are introduced to mitigate the risks of spilling, leaking, dumping and diffusion of flammable goods, oxidants, toxic and corrosive substances, and to avoid adverse effects of hazardous goods on human, environment and community.

- **Safety inspection:** The Company has established the *SHE Inspection Procedures* for operations or activities that may result in non-conformance with the Company's expected requirements on safety, health and environment. Routine inspection is conducted at least once a quarter at the production area and staff dormitory while special inspection is carried out regularly at specific areas or project sites. In this way, we can detect hidden dangers, violations of *Safety Specification* and non-conformance items in a timely manner, actively implement improvement measures, and prevent injuries or negative events.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

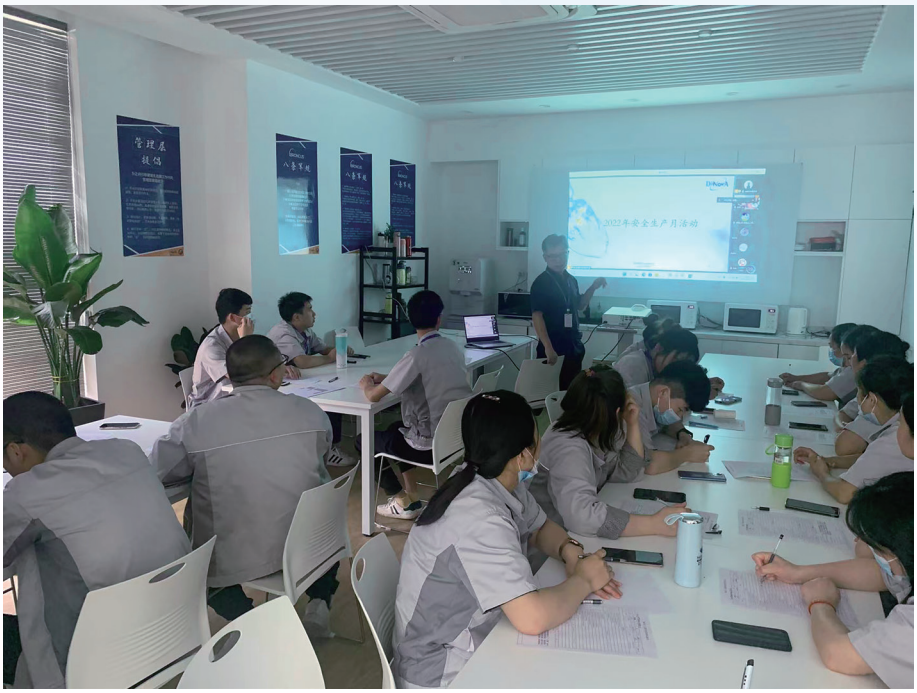
In addition, the Company has developed the *Emergency Response Procedure, Emergency Evacuation Procedure* and *Corrective and Preventive Actions* applicable before, during and after occurrence of an emergency respectively, and organised all employees to participate in firefighting drills and emergency evacuation drills regularly.



Firefighting and evacuation drills

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

With safety awareness rooted in our business process, all employees are periodically organised to attend work safety training to raise their awareness of occupational health and safety and enhance their capabilities to cope with safety emergencies.



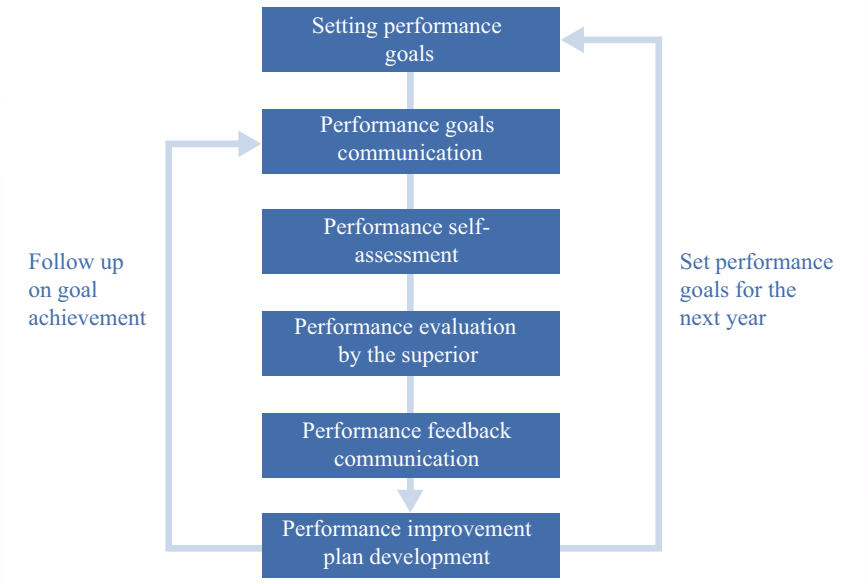
Work safety training

We organise all of our employees to take physical examination every year. During the previous three reporting periods, the Company had no critical health and safety accident and 0 work-related fatalities. During the Reporting Period, the lost working day due to occupational injury was 0, and the occupational disease case was 0 as well.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. Development and Training

By reference to outstanding practices in the industry and specialised nature of different posts, the Company has developed post-based performance standards, and adjusted job grades and salaries of employees who meet the promotion requirements every year. Moreover, the *Performance Appraisal and Management System* was prepared and implemented to guide appraisal and management of employees' performance, and to learn and evaluate employees' working attitude and ability scientifically. To motivate employees for self-improvement, we require them to set personal annual performance goals and confirm them with their direct superiors. The Company will conduct semi-annual and annual performance evaluation on all employees based on the required abilities of the job, achievement of performance goals, working attitude and other factors. The evaluation process covers employee self-evaluation and comprehensive performance evaluation by the direct supervisor. Superiors will conduct performance interviews with subordinates, report performance evaluation results, summarise annual performance, formulate performance improvement plans, and jointly sign for approving performance evaluation results. The results of the annual performance evaluation will be used as the basis for rewards and punishment, transfer, salary, dismissal, promotion, post adjustment, potential development and education and training of employees.



Broncus' performance evaluation process

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company has set up a comprehensive training system to provide targeted training programmes for employees of different positions and ranks to help them keep up with the development of the industry and achieve self-breakthrough. During the Reporting Period, based on outstanding practices in the industry and feedback from employees, we adjusted the training plan this year, set up new training programmes for new supervisors and interns, added special courses for research and development in the online platform "Knowledge bank", and updated the marketing training model, to help employees unleash their full potential.

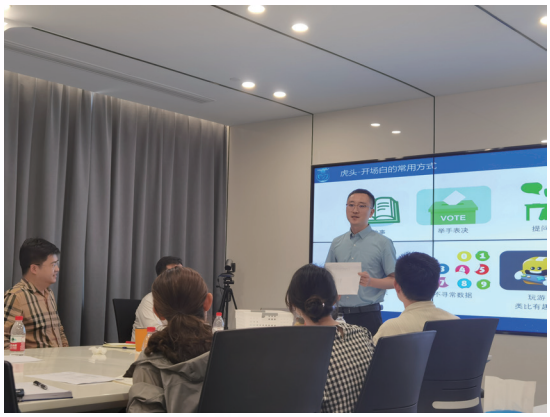
Case: R&D training and sharing session

To deepen employees' understanding of COPD treatment and let them learn about the best practices in the industry, we organised a training and sharing session for our R&D employees in August 2022, enabling them to learn the basic knowledge of COPD treatment and the latest research progress, understand the solutions for different phenotypes and focus on the latest clinical results of targeted lung denervation (TLD) radiofrequency ablation technology abroad. The sharing session helped employees to learn more about the advantages of TLD technology in COPD treatment in the biomedical field and provided basic knowledge for subsequent design and development for clinical requirements.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Case: Off-the-job training for new marketing employees

In order for employees to quickly integrate into the Company, understand our products and acquire the skills required for their posts, we provided a week-long off-the-job training for new employees, which included introduction on theoretical knowledge of products, hands-on exercises, presentations and role plays. The Company had created a platform to stimulate employees' internal drive and improve their abilities, while also allowing them to acquire new knowledge and skills and apply them to their actual work.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Reporting Period, 80%[1] of employees attended related trainings, with an average training hour of 2.71 hours[2]. Set out below is the training percentage and average training hours for trainees by gender and by job grade:

FY2022 employee training data

	Trainee percentage (%)[3]	Average training hours of employees (hr)[4]
By gender		
Male	50	2.40
Female	50	2.50
By job grade		
Senior management	2	2.38
Intermediate management	8	3.22
Staff	90	2.68

4. Care for Employees

- ***Remuneration and Benefits***

  The Company has established a fair, reasonable and competitive remuneration system by reference to the benefit package standards and practices in the medical care industry and other industries to attract and retain talents and provide employees with suited salary rewards. Employee remuneration is mainly composed of basic salary, post salary and performance salary. The contents of remuneration structure are varied with different posts. We set bonuses for different posts based on the bonus system for the current year, including performance bonus, sales bonus, patent bonus and project bonus. In addition, the Company provides senior management and core talents with long-term option incentive plans to motivate and retain high-quality talents and achieve a win-win situation between employees and the Company.

  In terms of employee benefits, in addition to paying social insurance and housing fund for employees, the Company also offers a supplementary commercial insurance for each employee. Each employee can also enjoy different subsidies, including subsidy for using cell phone for work, local commuting subsidy and daily lunch subsidy.

1 Trainee percentage = number of trainees/total number of employees* 100
2 Average training hours for each trainee = total training hours/total number of employees
3 Trainee percentage of a category = number of trainees of the category/total number of trainees* 100
4 Average training hours for trainees of a category = total training hours for trainees of the category/total number of employees of the category

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- ***Employee Communication***

  The Company believes that continuous and regular communication with employees can enhance their sense of belonging and improve team cohesion. Therefore, the Company has established diversified communication channels to ensure smooth communication among employees at all levels. Employees can bring up reasonable suggestions and opinions through direct communication and feedback, employee suggestion box, special mailbox for suggestion collection, employee communication conference and others. We regularly organise "CEO Talk" to commend and communicate with high-potential talents from various departments, so as to gain an in-depth understanding of their work and collect their expectations and suggestions for our development.

"CEO Talk" employee communication activity

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Case: Face-to-face communication between CEO and graduate hires

At the recruitment ceremony of this year, Mr. Guowei Zhan, CEO of the Company, introduced the Company's development history, shared his personal experience, and gave career advice to the new graduate hires. The new employees also expressed that the face-to-face communication with the CEO benefited them a lot.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- ***Employee activities***

  In order to help our employees to gain a work-life balance, we have established clubs of various subjects such as badminton, basketball, yoga, dancing, floral art, etc., and encourage them to organise other clubs according to their own interests and hobbies. In addition, we hold various activities on important days such as traditional and international festivals, and monthly birthday parties, with gifts well prepared for them, expressing our love and care for our employees and creating a friendly and family-like atmosphere at work.

Festival and celebration activities, and well-prepared gifts for employees

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Team building

Awarding for employees

Monthly birthday party

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

IV. ANTI-CORRUPTION

We always uphold an honest and responsible attitude to carry out business activities and has zero tolerance for any bribery, fraud, extortion, money laundering, and other illegal acts. Abiding by laws and regulations such as the *Anti-monopoly Law of the People's Republic of China, Anti-Unfair Competition Law of the People's Republic of China, Anti-money Laundering Law of the People's Republic of China* and *Interim Provisions on Banning Commercial Bribery*, we have formulated rules and regulations such as *Anti-corruption Policy* and *Administrative Measures for Anti-money Laundering* to set out strict rules on anti-corruption, anti-bribery, reporting process and whistleblower protection, etc. All the employees, suppliers and partners are required to follow integrity and ethical standards, making a concerted effort to promote the sustainable development of the Company. During the Reporting Period, there were no corruption-related legal cases brought against the Company or the employees.

1. Corruption Reporting

We attach great importance to keeping the reporting channels open and the information confidential. Employees and external parties having direct or indirect economic relationships with us are encouraged to report any actual or suspected fraud cases through specific mailbox and e-mail, including but not limited to anonymous or real-name whistleblowing to the Legal Department or direct communication with middle or senior management. The Company encourages real-name reporting. If a real-name report is made, the Company's Compliance Department will conduct an investigation and verification, and if the investigation is substantiated, the Company will reward the whistleblower with RMB2,000. Meanwhile, maliciously false accusations are strictly prohibited by the Company. For those who maliciously lodge false accusations against others or provide false evidence, the Company will assist the victim to file legal proceeding and make sure the offender will be punished by law to make up for the losses of the victim.

Hotline: 0086-021-33537002
Email: compliance@broncuschina.com

We keep the information reported in strict confidentiality, and do not allow any retaliation by anyone to well-intentioned whistleblowers. Employees and external personnel are well protected from being unfairly treated or any other forms of retaliation like dismissal, demotion, suspension, threat, harassment, etc., due to the reporting.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. Integrity Culture

We lay emphasis on shaping a non-corrupted and honest culture. Anti-corruption requirements are included in the orientation. New joiners need to participate in the training and pass corresponding assessments. Meanwhile, our online training covers compliance courses for all employees. During the Reporting Period, we invited outside lawyers to give professional lectures on domestic and foreign anti-corruption laws and regulations applicable to our employees in different regions. We are also committed to working with suppliers and partners to jointly build a non-corrupted environment which is mutually beneficial, and to organising anti-corruption training activities for suppliers from time to time.

Anti-corruption trainings	Unit	FY2022
The total number of directors trained in anti-corruption and compliance	Person(s)	2
The total number of senior managements trained in anti-corruption and compliance	Person(s)	2
The total number of middle managements trained in anti-corruption and compliance	Person(s)	14
The total number of staff trained in anti-corruption and compliance	Person(s)	301
The total number of anti-corruption and compliance training	Time(s)	1
The total number of anti-corruption and compliance training hours	Hour(s)	1

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

V. SUPPLY CHAIN MANAGEMENT

Broncus pursues cooperation with suppliers who, same as us, follow high business ethics standards and actively practice environmental and social responsibilities, aiming at providing customers with high-quality products and services on a stable and sustainable basis. The Company has formulated the *Procurement Management Policy* and the *Procurement Control Policy*, which provide safeguards for the access, selection, approval, monitoring and evaluation of suppliers, and clarify the responsibilities of internal procurement personnel to reduce risks in the supply chains.

Meanwhile, the Company signs the *Purchase Contract* with suppliers, which clarifies the requirements on the quality of products delivered, payment method, freight, liability for breach of contracts, and regulates the code of business conduct and ethics.

New suppliers are rated A, B, and C according to their influence on the Company's business, and targeted assessments and supervision standards are set accordingly. The *Procurement Control* specifies that suppliers rated A or B shall sign the *No-Change Agreement* to ensure a stable supply of parts and services. In addition, the Company annually assesses the suppliers by category in accordance with the criteria in the *Supplier Assessment Form* to verify the effectiveness of their quality management systems and service performance. For suppliers who fail to meet the standards and requirements of procurement and quality, the Company issues rectification notifications to them. Those who do not make any responses may be disqualified.

Suppliers are mainly classified into production suppliers and administrative procurement suppliers. During the Reporting Period, the Company conducted access assessments for 13 new suppliers and did not have any instances of suppliers being removed due to product quality and safety issues. As of December 31, 2022, the Company had 110 suppliers for its operations in China, of which 65 were certified with ISO13485 or ISO9001. All suppliers have signed our *Integrity Commitment*.

Number of suppliers by geographical region	**Unit**	**FY2022**
Number of suppliers in China	Number	107
Number of suppliers in other countries	Number	3

We actively communicate with suppliers and other partners about our requirements and expectations regarding environmental protection and social responsibility, and we hope that we can work together to build a sustainable and responsible supply chain based on a long-term partnership. We prefer suppliers valuing environmental protection and promoting energy efficiency. Original equipment manufacturers with processes causing pollution are required to obtain qualifications issued by the environmental protection authorities, such as the certification of China Environmental Labelling Programme, the certification of China Energy Conservation Programme, ISO quality system identification, to ensure that they are capable to perform relevant work. Meanwhile, our *Supplier Audit* and *Inspection Checklist* sets out the criteria for assessing suppliers' environment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

VI. ENVIRONMENTAL RESPONSIBILITY[1]

The Company abides by national laws and regulations, including the *Environmental Protection Law of the People's Republic of China*, the *Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution*, the *Law of the People's Republic of China on the Prevention and Control of Water Pollution*, the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste* and the *Law of the People's Republic of China on Energy Conservation*. The Company upholds the idea of green and sustainable development. With various measures taken in carbon emission treatment, waste management, energy and water use, we are devoted to building an environmental-friendly enterprise and fulfilling our commitment to low-carbon production and operation. During the Reporting Period, there was no significant violation of China's laws and regulations regarding environmental protection.

1. Emission and Waste Management

The Company has established the Waste *Management Procedures* to regulate treatment procedures for domestic waste, industrial wastes, wastewater and domestic sewage, and make sure that all the wastes are treated in compliance with relevant laws and regulations, with non-recyclable or hazardous waste handled by professional agencies with qualification. We also make the effort to minimise the waste generated from production and operation, as well as the impact of waste on the environment.

During the Reporting Period, a small amount of volatile organic compounds (VOCs) are generated in the screen printing process at the Company's production site, which are discharged through exhaust pipes of specified heights after collection and treatment to meet the standards. A limited amount of domestic sewage is generated from daily operation of the Company and transferred into the sewage treatment station within the industrial park for collective treatment. The non-hazardous wastes are mainly office-related wastes, which are collectively treated by the park, which cause no material impacts on the environment and natural resources. In the future, we will take waste management measures in a strict and constant manner, and actively explore applicable emission reduction measures.

Emissions[2]	FY2022
VOCs (Cubic metre)	100.00
Domestic waste (tonne)[3]	2.00
Domestic waste intensity (tonne per capita)	0.057

1 We disclose data on the physical sites that generate emissions, waste and resource consumption in strict accordance with the requirements of the Hong Kong Stock Exchange. As a result, the environment-related disclosures in this Report involve the production base in Hangzhou as well as the operating offices in Hangzhou, Shanghai, Shenzhen, Beijing and Guangzhou respectively.

2 In 2022, the hazardous wastes generated by the Company only involved a small number of empty reagent bottles, which had been recycled by professional agencies with qualification and had limited impacts on the environment, thus KPI A1.3 (total amount and intensity of hazardous wastes produced) is not disclosed in this ESG Report.

3 In 2022, the Company's non-hazardous wastes were mainly domestic waste generated from the operation of the production base in Hangzhou.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. Resource Consumption[1]

We have formulated the *Energy and Resource Conservation Management Procedures* to control consumption of energy and resources and minimise the negative impacts on the environment. Posters are put up at the production base and operating offices to encourage employees to save electricity, water and printer paper. The resources we use mainly include purchased electricity, municipal water and small amounts of paper packaging materials at the production base and operating offices.

Environmental awareness posters in operating offices

1 Based on the characteristics of the industry, the Company's operation does not involve other environmental and natural resources, thus KPI A3 (The Environment and Natural Resources) and KPI A3.1 (Significant impacts of activities on the environment and natural resources and the actions taken to manage them) are not applicable, and such information is not disclosed in the Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Environmental awareness posters in the production base

Electrical energy saving

- Avoid leaving machinery and equipment's motors idle during work and switch to shutdown or hibernation mode during holidays
- Use of air conditioning units at fixed times and temperatures, with provisions for the last person to leave the room to turn off the air conditioning
- Turn off lights when leaving – require the person who leaves the lighting area last to turn off the light

Water saving

- Require employees to turn off faucets after using the water
- Use a water-saving faucet that can automatically turn off
- Implement the reuse of water resources step by step

Paper saving

- Encourage employees to reuse one-sided printed paper and print on the opposite side

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Types of resources	FY2022
Total energy consumption (MWh)	1,161.88
Indirect energy consumption (MWh)[1]	1,161.88
Energy consumption intensity (MWh per capita)	3.90
Total water consumption (tonne)	8,630.71
Water consumption intensity (tonne per capita)	38.53
Paper packaging material used (kg)[2]	200

3. Greenhouse Gases (GHG) and Climate Change

Most of our GHG emissions come from the use of electricity at the production bases and operating offices. We strive to supervise the use of electricity in production bases and offices, in an effort to make constant progress in saving energy and improving energy efficiency. Furthermore, we will continue to pay attention to developments of international and domestic policies and strategies relating to climate change responses, as well as best practices in the industry, to provide references for future development of long-term effective strategic framework for carbon reduction.

GHG emissions[3]	FY2022
Total GHG emissions (tonnes of CO_2 equivalent)	812.34
GHG emissions (scope 2) (tonnes of CO_2 equivalent)	812.34
GHG emission intensity (tonnes of CO_2 equivalent per capita)	2.73

Climate change has become a global challenge that needs to be addressed through concerted efforts of all humanity. Therefore, we focus on climate trends, and the impact of domestic and foreign regulatory changes on our business operation. Under such circumstance, we identify risks and opportunities of climate change in an active manner and contrive to establish corresponding responses.

1 In 2022, our energy consumed was mainly from purchased electricity consumed by the production base in Hangzhou and operating offices in Hangzhou, Shanghai, Shenzhen, Beijing and Guangzhou respectively, all of which were indirect energy consumption. Therefore, there was no direct energy consumption.

2 As we have a wide variety of products and it is difficult to measure the weight of the products, the percentage of packaging materials per production unit is not disclosed for the time being during the Reporting Period and will be disclosed in due course in the future.

3 GHG emissions are presented in terms of carbon dioxide equivalent, with the calculation methods and conversion factors specified in the *Guidelines for Accounting and Reporting Greenhouse Gas Emissions of Other Industrial Enterprises* issued by the National Development and Reform Commission.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Physical risks	Potential impacts	Responses
Physical risks	• Extreme weather events caused by climate change, such as typhoons, rainstorms and floods, are becoming more frequent and unpredictable, which will pose a physical risk to the safety of employees, affect the normal supply of electricity and water, damage the Company's assets and disrupt the continuity of supply chains. • Global warming may increase the need for cooling at production bases to keep equipment from overheating as well as for cooling in operating offices, and then cause an increase in the cost of electricity. Higher temperatures also expose more people to heat-related health risks, which has a direct impact on the productivity. • As a healthcare enterprise, the Company shares enormous pressure on the industry put by global warming and harsh climatic conditions which cause an increase in diseases. Notably, extreme heat increases the risk of heart disease, respiratory diseases and heatstroke.	• The Company has formulated the *Emergency Response Procedures and Emergency Evacuation procedures* to improve the capacity to handle accidents, disasters and health events. • The Company will track the changing climate and improve relevant operating processes (if appropriate), and climate-related risks are included in our risk management and strategic planning. • Engaging in the healthcare industry, we will and must fulfil our social responsibility as a corporate citizen. The Company will strengthen research on the impact of climate change on diseases and the spread, carry out popularisation activities and training about impacts of climate change on people's health, and raise awareness among employees and the whole society to cope with climate change and protect themselves.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Physical risks	Potential impacts	Responses
Transition risks	• Investors and the public are increasingly demanding that enterprises make active responses to climate change. Failure to respond may have a negative impact on our performance in the capital market as well as the public perception. • China has introduced a series of policies to achieve "carbon peaking and carbon neutrality", and the world is seeing more laws and regulations be promulgated and implemented to limit carbon emissions. Enterprises are required to disclose emissions in compliance with more stringent regulations, which increases costs of GHG emission and tightens the supervision on the impact of the Company's operation to the environment. • Clients may pay attention to the carbon footprint of the Company's products for their own supply chain emission reduction needs. Failure to meet such needs may lead to a loss of clients and a reduction in revenue.	• The Company will disclose information in strict compliance with relevant standards and take the initiative to communicate with stakeholders to promote multi-party cooperation and enhance corporate reputation. • The Company will keep abreast of the updates on laws, regulations and standards in the areas in which we operate for the improvements of environmental management policies and systems. The Company will continue to promote the refined management of energy use and precise calculation of carbon emissions, increase the proportion of renewable energy used by the Company, such as purchasing green electricity; and exploring suppliers' potential in green operation to activate their awareness and capacity to carry out green production. • The Company will actively track the cutting-edge environmentally-friendly materials and technologies and evaluate the product carbon footprint in due time according to client needs.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

VII. COMMUNITY ENGAGEMENT

We integrate our own advantages with business characteristics to make active responses to the Healthy China Initiative. We devote ourselves to the minimally interventional therapy of lung diseases and actively invests in human resource, material resource, time and capital resources, aiming to promote the development of the medical industry. Our corporate social responsibility is mainly reflected in our dedication to providing wider accessibility to global medical innovation results that benefit patients around the world.

- **New schemes for diagnosis and treatment of lung diseases implemented through enterprise-hospital collaboration**

  On July 21, 2022, the opening ceremony of the "Multidisciplinary Diagnosis Station (MDT) for Pulmonary Nodules" scheme jointly launched by Broncus and Shanghai United Family Hospital was successfully held. A total of 6 employees and executives attended the event. An invited expert from Dongfang Hospital Affiliated to Tongji University carried out the first demonstrative public welfare operations of "Bronchoscopic biopsy with the LungPro Virtual Bronchoscopic Navigation System". With LungPro introduced, the hospital has improved its overall medical service quality and achieved early detection and early treatment for patients with lung cancer. In the future, the Company will continue to cooperate with United Family Hospital to promote the development and application of innovative surgical methods and innovative medical service models in China.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In the same month, with LungPro, and relying on 5G+AI navigation, the interventional pulmonology team from the Department of Respiratory and Critical Care Medicine of Sir Run Run Shaw Hospital, affiliated with Zhejiang University School of Medicine, remotely guided a team from Yueqing People's Hospital Affiliated to Wenzhou Medical University, located 300km-away, to successfully complete a cross-regional long-distance 5G+AI navigation-assisted ultrasound-guided transbronchial lung biopsy, which was the first successful case in Zhejiang Province.

- **Academic exchanges held to promote the innovative development of interventional pulmonology**

  In December 2022, the Company and Henan Provincial People's Hospital jointly held the "H to H – Sino-German Forum on Interventional Pulmonology 10th Round PPL Diagnosis and Treatment". A total of 10 employees participated in the event preparation, brought together experts from China and Germany to deliver 5 in-depth exchanges around the cutting-edge development of diagnosis and treatment technology of interventional pulmonology, with the aim to advance the integration of knowledge and popularisation of technology, contributing to the development of interventional pulmonology both at academic and clinical levels, in a cooperative manner.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- **Medical-industrial transformation strategic cooperation to actively promote technological innovation**

  In December 2022, five employees and executives of the Company attended the annual academic conference of respiratory endoscopy and interventional pulmonology, during which Broncus and Guangzhou Institute of Respiratory Health successfully signed a strategic cooperation agreement for medical-industrial transformation regarding the radiofrequency ablation system project and bronchoscope adjustable curved sheath project. Both parties will cooperate with their respective medical resources and technical platforms to establish an all-round, broad-coverage and diversified cooperation mechanism, actively promote the medical-industrial integration and technological innovation, and open a new chapter for lung cancer interventional treatment.

Looking forward, the Company will continue to actively fulfil our corporate social responsibility by keeping exploring community engagement patterns and innovative actions as a way to benefit global patients and bring warmth to the global community.

INDEPENDENT AUDITOR'S REPORT

Year ended 31 December 2022

Ernst & Young
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Quarry Bay, Hong Kong

安永會計師事務所
香港鰂魚涌英皇道 979號
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ey.com

Independent auditor's report
To the shareholders of Broncus Holding Corporation
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Broncus Holding Corporation (the "Company") and its subsidiaries (the "Group") set out on pages 117 to 201, which comprise the consolidated statement of financial position as at 31 December 2022, and 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 year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Year ended 31 December 2022

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of purchased intellectual properties	
The Group had intellectual properties of USD5,708,000 as disclosed in note 15 to the consolidated financial statements as at 31 December 2022. The Group is required to perform impairment assessment of the intellectual properties whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The recoverable amount of the underlying cash generating units (the "CGUs") to which the intellectual properties belong is supported by value-in-use calculations which are based on future discounted cash flows. Management performed impairment assessment and concluded that the intellectual properties were not impaired as at 31 December 2022. The impairment assessment made by management involved significant estimates and judgements, including sales growth rates, gross profit margin, net profit margin and terminal growth rates used to estimate future cash flows and discount rates applied to these forecasted future cash flows of the underlying CGUs. This impairment assessment was significant to our audit because the process was complex and involved significant judgements and estimates. The Group's disclosure about the impairment assessment of intellectual properties is included in notes 2.4, 3 and 15 to the consolidated financial statements.	We evaluated management's assessment of impairment indications and management's determination of the CGUs to which the intellectual properties belong. We obtained management's forecasted cash flows and tested the mathematical accuracy of the underlying value-in-use calculations. We also compared historical actual results to those historical cash flow forecasts to assess the quality of management's forecasts. We assessed the reasonableness of key assumptions used in the value-in-use calculations, comprising sales growth rates, gross profit margin, net profit margin, terminal growth rate and discount rates. When assessing these key assumptions, we discussed with management to understand and evaluate management's basis for determining the assumptions and compared them to the Group's development plans. We also involved our valuation specialist to assist us in evaluating the reasonableness of the valuation model and the discount rate applied by management by comparing the discount rates used to entities with similar risk profiles and market information.

INDEPENDENT AUDITOR'S REPORT

Year ended 31 December 2022

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the Management Discussion and Analysis of the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Chairman's Statement, the Report of the Directors and the Corporate Governance Report, which are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Chairman's Statement, the Report of the Directors and the Corporate Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

INDEPENDENT AUDITOR'S REPORT

Year ended 31 December 2022

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

Year ended 31 December 2022

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong
29 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2022

	Notes	2022 USD'000	2021 USD'000
REVENUE	*5*	**9,413**	10,891
Cost of sales		**(2,098)**	(2,149)
Gross profit		**7,315**	8,742
Other income and gains	*5*	**4,785**	3,129
Selling and distribution expenses		**(11,189)**	(12,706)
Administrative expenses		**(9,229)**	(18,546)
Impairment losses on financial assets, net		**(438)**	(584)
Research and development costs		**(19,167)**	(16,759)
Other expenses		**(12)**	(407)
Finance costs	*7*	**(98)**	(170)
Changes in fair value of convertible redeemable preferred shares		**–**	(198,874)
LOSS BEFORE TAX	*6*	**(28,033)**	(236,175)
Income tax expense	*10*	**(3)**	(3)
LOSS FOR THE YEAR		**(28,036)**	(236,178)
Attributable to:			
Owners of the parent		**(28,036)**	(235,784)
Non-controlling interests		**–**	(394)
		(28,036)	(236,178)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (USD)	*12*	**(0.06)**	(0.79)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	2022 USD'000	2021 USD'000
LOSS FOR THE YEAR	**(28,036)**	(236,178)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(2,160)**	162
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(2,160)**	162
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(30,196)**	(236,016)
Attributable to:		
Owners of the parent	**(30,196)**	(235,625)
Non-controlling interests	**–**	(391)
	(30,196)	(236,016)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	Notes	2022 USD'000	2021 USD'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**2,402**	2,729
Intangible assets	*15*	**5,910**	7,036
Right-of-use assets	*14*	**1,354**	1,907
Financial assets at fair value through profit or loss	*19*	**7,603**	–
Finance lease receivables	*21*	**67**	72
Trade receivables	*17*	**1,493**	1,681
Prepayments, other receivables and other assets	*18*	**247**	451
Pledged deposits	*20*	**–**	213
Total non-current assets		**19,076**	14,089
CURRENT ASSETS			
Inventories	*16*	**4,298**	4,192
Finance lease receivables	*21*	**25**	44
Trade and bills receivables	*17*	**8,598**	5,663
Prepayments, other receivables and other assets	*18*	**1,510**	1,586
Pledged deposits	*20*	**526**	25
Time deposits with original maturity over three months	*20*	**81,153**	–
Cash and cash equivalents	*20*	**106,756**	227,207
Total current assets		**202,866**	238,717
CURRENT LIABILITIES			
Trade payables	*22*	**321**	400
Lease liabilities	*14*	**652**	739
Other payables and accruals	*23*	**6,116**	7,438
Bank overdrafts	*24*	**29**	13
Contract liabilities	*25*	**299**	374
Total current liabilities		**7,417**	8,964
NET CURRENT ASSETS		**195,449**	229,753
TOTAL ASSETS LESS CURRENT LIABILITIES		**214,525**	243,842

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	Notes	2022 USD'000	2021 USD'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**214,525**	243,842
NON-CURRENT LIABILITIES			
Lease liabilities	*14*	**790**	1,196
Other payables and accruals	*23*	**175**	200
Contract liabilities	*25*	**102**	28
Total non-current liabilities		**1,067**	1,424
Net assets		**213,458**	242,418
EQUITY			
Equity attributable to owners of the parent			
Share capital	*26*	**12**	12
Reserves	*27*	**213,446**	242,406
Total equity		**213,458**	242,418

Mr. Guowei Zhan
Director

Mr. Hong Xu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	Attributable to owners of the parent								
	Share capital USD'000 (note 26)	Share premium* USD'000 (note 27)	Other reserve* USD'000 (note 27)	Share option reserve* USD'000 (note 27)	Exchange fluctuation reserve* USD'000 (note 27)	Accumulated losses* USD'000	Total USD'000	Non-controlling interests USD'000	Total equity USD'000
At 1 January 2021	6	–	46,280	6,287	(146)	(172,940)	(120,513)	(1,928)	(122,441)
Loss for the year	–	–	–	–	–	(235,784)	(235,784)	(394)	(236,178)
Exchange differences on translation of foreign operations	–	–	–	–	159	–	159	3	162
Total comprehensive income for the year	–	–	–	–	159	(235,784)	(235,625)	(391)	(236,016)
Acquisition of non-controlling interests	–	–	(2,472)	–	–	–	(2,472)	2,311	(161)
Issue of shares for the initial public offering	2	214,611	–	–	–	–	214,613	–	214,613
Share issue expenses	–	(7,885)	–	–	–	–	(7,885)	–	(7,885)
Automatic conversion of convertible redeemable preferred shares into ordinary shares	4	385,007	–	–	–	–	385,011	–	385,011
Issue of shares upon the exercise of share award arrangements	–	286	–	–	–	–	286	–	286
Equity-settled share award arrangements	–	–	–	9,003	–	–	9,003	8	9,011
At 31 December 2021	12	592,019	43,808	15,290	13	(408,724)	242,418	–	242,418

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	Attributable to owners of the parent						
	Share capital USD'000 (note 26)	Share premium* USD'000 (note 27)	Other reserve* USD'000 (note 27)	Share option reserve* USD'000 (note 27)	Exchange fluctuation reserve* USD'000 (note 27)	Accumulated losses* USD'000	Total equity USD'000
At 1 January 2022	12	592,019	43,808	15,290	13	(408,724)	242,418
Loss for the year	–	–	–	–	–	(28,036)	(28,036)
Exchange differences on translation of foreign operations	–	–	–	–	(2,160)	–	(2,160)
Total comprehensive income for the year	–	–	–	–	(2,160)	(28,036)	(30,196)
Exercise of restricted share units	–	632	–	(583)	–	–	49
Issue of shares upon the exercise of share award arrangements	–	783	–	(713)	–	–	70
Transfer of share option reserve upon the forfeiture or expiry of share options	–	–	–	(1,104)	–	1,104	–
Equity-settled share award arrangements	–	–	–	1,117	–	–	1,117
At 31 December 2022	12	593,434	43,808	14,007	(2,147)	(435,656)	213,458

* These reserve accounts comprise the consolidated reserves of USD213,446,000 (2021: USD242,406,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	Notes	2022 USD'000	2021 USD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(28,033)**	(236,175)
Adjustments for:			
Finance costs	*7*	**98**	170
Bank interest income	*5*	**(2,558)**	(117)
Interest income from non-current receivables	*5*	**(70)**	(44)
Loss/(gain) on disposal of items of property, plant and equipment	*6*	**5**	(96)
Fair value gains net:			
Financial assets at fair value through profit or loss	*6*	**(863)**	–
Depreciation of property, plant and equipment	*13*	**895**	773
Depreciation of right-of-use assets	*14(a)*	**697**	670
Amortisation of intangible assets	*15*	**1,256**	1,248
Gain on termination of leases	*14(c)*	**–**	(18)
Impairment of trade receivables, net	*17*	**438**	584
Write-down of inventories to net realisable value	*6*	**–**	10
Equity-settled share award expenses		**1,123**	9,011
Changes in fair value of convertible redeemable preferred shares	*6*	**–**	198,874
Government grants from forgiveness of interest-bearing bank loans and associated interest expenses		**–**	(1,108)
Foreign exchange differences, net	*6*	**(691)**	322
		(27,703)	(25,896)
Increase in inventories		**(106)**	(1,151)
Increase in trade and bills receivables		**(3,076)**	(4,964)
Decrease in finance lease receivables		**27**	–
Decrease in prepayments, other receivables and other assets		**196**	25
Decrease in an amount due from a related party		**–**	7
Increase in pledged deposits		**(288)**	–
(Decrease)/increase in trade payables		**(79)**	43
(Decrease)/increase in other payables and accruals		**(1,347)**	498
Decrease in contract liabilities		**(1)**	(170)
Cash used in operations		**(32,377)**	(31,608)
Interest received		**1,426**	117
Income tax paid		**(3)**	(3)
Net cash flows used in operating activities		**(30,954)**	(31,494)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	Note	2022 USD'000	2021 USD'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(720)**	(1,855)
Proceeds from disposal of items of property, plant and equipment		**48**	128
Purchases of intangible assets		**(136)**	(26)
Increase in time deposits with original maturity over three months		**(80,021)**	–
Purchases of financial assets at fair value through profit or loss		**(6,740)**	–
Net cash flows used in investing activities		**(87,569)**	(1,753)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of convertible redeemable preferred shares		**–**	39,000
New bank borrowings		**253**	220
Repayment of bank borrowings		**(237)**	(3,322)
Acquisition of non-controlling interests		**–**	(161)
Principal portion of lease payments		**(609)**	(579)
Issue of shares upon the exercise of share award arrangements		**70**	286
Share issue expenses		**–**	(7,885)
Proceeds from issue of shares for the initial public offering		**–**	214,613
Capital injection from the exercise of restricted stock units		**49**	–
Interest paid		**(98)**	(350)
Net cash flows (used in)/from financing activities		**(572)**	241,822
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(119,095)**	208,575
Cash and cash equivalents at beginning of year		**227,207**	18,788
Effect of foreign exchange rate changes, net		**(1,356)**	(156)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**106,756**	227,207
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**49,588**	209,412
Non-pledged time deposits with original maturity of less than three months when acquired		**57,168**	17,795
Cash and cash equivalents as stated in the consolidated statement of financial position	*20*	**106,756**	227,207
Cash and cash equivalents as stated in the consolidated statement of cash flows		**106,756**	227,207

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 30 April 2012. The registered address of the Company is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The head office and principal place of business in China is located at No. 88 Jiangling Road, Xixing Street, Binjiang District, Hangzhou, Zhejiang Province, People's Republic of China (the "PRC").

The Company is an investment holding company. During the year, the Group was principally engaged in research and development, and the manufacture and commercialisation of medical devices and consumables.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 24 September 2021.

In the opinion of the directors, the controlling shareholders of the Company are QM12 Limited, Broncus Biomedical Limited, Mr. Zhenjun Zi, Dinova Healthcare (Hong Kong) Co., Limited, BRS Biomedical Limited, Dinova Healthcare Delta Fund (USD) L.P., Xin Nuo Tong Investment Limited, Dinova Venture Partners GP III, L.P. and Dinova Venture Partners GP IV, L.P..

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Broncus Medical Inc.	United States of America ("USA") 7 May 2012	United States dollar ("USD") 100,000	100%	–	Research development and commercialisation of medical devices and consumables
Broncus Medical (Australia) Pty Ltd	Australia 15 October 2018	Australian dollar ("AUD") 100	100%	–	Commercialisation of medical devices
Uptake Medical Technology Inc.	USA 19 July 2016	USD100,000	100%	–	Research development and commercialisation of medical devices and consumables
Uptake Medical B.V.	Netherlands 17 August 2017	Euro ("EUR") 10,000	–	100%	Commercialisation of medical devices
Broncus Medical GmbH	Germany 2 January 2021	EUR25,000	–	100%	No principal activity

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

Particulars of the Company's subsidiaries are as follows: (Continued)

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Broncus China Holding Corporation ("BCH")	Cayman Islands 18 April 2013	USD100,000	100%	–	Commercialisation of medical devices
Broncus Medical (Hong Kong) Co., Limited	Hong Kong 19 June 2013	Hong Kong dollar ("HKD") 10,000	–	100%	Commercialisation of medical devices
Hangzhou Broncus Medical Co., Ltd.* ("Hangzhou Broncus") (i) (ii)	PRC/ Mainland China 24 February 2016	Renminbi ("RMB") 600,000,000	–	100%	Research development and commercialisation of medical devices and consumables
Broncus Medical (China) Co., Ltd.* (i)	PRC/ Mainland China 18 December 2012	RMB55,600,000	–	100%	Research development and commercialisation of medical devices and consumables
Hangzhou Kunpeng Medical Co., Ltd.* (i)	PRC/ Mainland China 4 July 2018	RMB1,000,000	–	100%	No principal activity

Notes:

(i) These entities are wholly-foreign-owned companies established under PRC law.

(ii) During the year, the registered capital of this entity increased from RMB350,000,000 to RMB600,000,000.

* The English names of these entities registered in Mainland China represent the best efforts made by the management of the Company to directly translate their Chinese names as they did not register any official English names.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value. These consolidated financial statements are presented in USD and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2022. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in the consolidated statement of profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or accumulated losses, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's consolidated financial statements.

Amendments to IFRS 3	*Reference to the Conceptual Framework*
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to IFRS Standards 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

The nature and the impact of the revised IFRSs that are applicable to the Group are described below:

(a) Amendments to IFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "Conceptual Framework") issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combinations during the year, the amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by IAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(c) Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) *Annual Improvements to IFRS Standards 2018-2020* sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are applicable to the Group are as follows:

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IFRS 16	*Lease Liability in a Sale and Leaseback*[2]
IFRS 17	*Insurance Contracts*[1]
Amendments to IFRS 17	*Insurance Contracts*[1, 5]
Amendment to IFRS 17	*Initial Application of IFRS 17 and IFRS 9 - Comparative Information*[6]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current* (the "2020 Amendments")[2, 4]
Amendments to IAS 1	*Non-current Liabilities with Covenants* (the "2022 Amendments")[2]
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to IAS 8	*Definition of Accounting Estimates*[1]
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2024
3 No mandatory effective date yet determined but available for adoption
4 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024
5 As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023
6 An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of IFRS 17

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. In 2022, the IASB issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to IFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently revisiting the accounting policy disclosures to ensure consistency with the amendments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 12 narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted.

The Group has applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. Upon initial application of these amendments, the Group will recognise deferred tax for all temporary differences related to leases at the beginning of the earliest comparative period presented. During the year, the Group has performed a detailed assessment on the impact of amendments to IAS 12. The Group has estimated that it will recognise a deferred tax asset of USD202,000 for deductible temporary differences associated with lease liabilities and a deferred tax liability of USD214,000 for taxable temporary differences associated with right-of-use assets, and recognise the cumulative effect of initially applying the amendments as an adjustment to accumulated losses at 1 January 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Group measures certain financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1	–	based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated statement of profit or loss in the period in which it arises.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a);

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Machinery	5 to 10 years
Office equipment	3 to 7 years
Leasehold improvements	3 to 6 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents leasehold improvements under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost is the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intellectual properties

Purchased intellectual properties are stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 12 to 14 years, which is determined by considering the typical product effective life of the intellectual properties.

Software

Purchased software is stated at cost less any impairment losses and amortised on the straight-line basis over its estimated useful life of 3 to 10 years.

Research and development costs

All research costs are charged to the consolidated statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

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

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Warehouses and office premises	2 to 5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

Group as a lessee (Continued)

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of office premises (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the consolidated statement of profit or loss due to its operating nature.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases. At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs) and presented as a receivable at an amount equal to the net investment in the lease. The finance income on the net investment in the lease is recognised in the consolidated statement of profit or loss so as to provide a constant periodic rate of return over the lease terms.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially 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. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the consolidated statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the consolidated statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and finance lease receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on market historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and finance lease receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals and bank overdrafts.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings and payables)

After initial recognition, interest-bearing bank and other borrowings and payables are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated statement of profit or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated statement of profit or loss.

The Group provides for warranties in relation to the sale of certain products for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

(a) Sale of medical devices and consumables

Revenue from the sale of medical devices and consumables is recognised at the point in time when control of the asset is transferred to the customer.

(b) Provision of services

Revenue from the product support services is recognised over the service period on a straight-line basis and revenue from research development support services is recognised over time using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group.

(c) Licensing of intellectual property rights

Revenue from the licensing of intellectual property rights is recognised at the point in time when the licensee is granted with a right to use the intellectual property rights.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

The Company operates a share award plan for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model and Monto Carlo model further details of which are given in note 28 to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (Continued)

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China and the United States are required to participate in a central pension scheme operated by the local government. The subsidiaries operating in Mainland China and the United States are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

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

Borrowing costs

All borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

These consolidated financial statements are presented in USD, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain subsidiaries are currencies other than USD. As at the end of the reporting period, the assets and liabilities of these entities are translated into USD at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into USD at the exchange rates that approximate to those prevailing at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of those subsidiaries are translated into USD at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into USD at the weighted average exchange rates for the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Research and development costs

Research and development costs are expensed in accordance with the accounting policy for research and development costs in note 2.4 to the consolidated financial statements. Determining the amounts to be capitalised or expensed requires management to make assumptions and judgements regarding to technical feasibility of completing the intangible asset, future economic benefits and so forth.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Provision for expected credit losses on trade receivables and finance lease receivables

The Group uses a provision matrix to calculate ECLs for trade receivables and finance lease receivables. The provision rates are based on ageing for groupings of various customer segments that have similar loss patterns (i.e., by customer type).

The provision matrix is initially based on the historical observed default rates from listed companies in the same sector. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the medical industry sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast of economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 17 to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Useful lives of intangible assets

The Group's finite life intangible assets primarily represent patents transferred from third parties. These intangible assets are amortised on a straight-line basis over their useful economic lives, which are estimated to be the patent life. Additional amortisation is recognised if the estimated useful lives of patents are different from the previous estimation. Useful lives are reviewed at the end of the reporting period based on changes in circumstances.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Fair value measurement of share-based payments

The Group has set up certain share plan and granted options or restricted stock units to the Company's directors and the Group's employees. The fair value of the options or restricted stock units is determined by binomial model and Monto Carlo model at the grant dates. Significant estimates on assumptions, including the expected volatility, risk-free interest rate and expected life of options or restricted stock units, are made by the board of directors of the Company. Further details are included in note 28 to the consolidated financial statements.

Fair value of unlisted equity investments

The unlisted debt investments have been valued based on backsolve valuation technique and investment cost method (valued based on a recent transaction valuation) as detailed in note 33 to the consolidated financial statements. These valuations require the Group to make estimates and hence, they are subject to uncertainty. The Group classifies the fair value of these investments as Level 2. Further details are included in note 19 to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and only has one reportable operating segment. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

Geographical information

(a) Revenue from external customers

	2022 USD'000	2021 USD'000
Mainland China	**5,813**	6,022
European Union	**2,016**	2,087
USA	**172**	718
Other countries/regions	**1,412**	2,064
	9,413	10,891

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2022 USD'000	2021 USD'000
USA	**6,104**	7,098
Mainland China	**3,626**	4,819
European Union	**27**	43
Other countries/regions	**4**	3
Total	**9,761**	11,963

The non-current asset information above is based on the locations of the assets and excludes financial instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue during the reporting period is set out below:

	2022 USD'000	2021 USD'000
Customer A	**4,870**	2,250
Customer B	**N/A***	2,152

* The corresponding revenue of the customer is not disclosed as the revenue individually did not account for 10% or more of the Group's revenue during the reporting period.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2022 USD'000	2021 USD'000
Revenue from contracts with customers		
Sale of medical devices and consumables	**8,929**	8,241
Licensing of intellectual property rights	**–**	2,152
Provision of services	**436**	488
Revenue from other sources		
Gross rental income	**48**	10
	9,413	10,891

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers

(a) Disaggregated revenue information

	2022 USD'000	2021 USD'000
Geographical markets		
Mainland China	**5,813**	6,022
European Union	**1,968**	2,087
USA	**172**	708
Other countries/regions	**1,412**	2,064
	9,365	10,881
Timing of revenue recognition		
Goods transferred at a point in time	**8,929**	10,393
Services transferred over time	**436**	488
	9,365	10,881

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2022 USD'000	2021 USD'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of medical devices and consumables	**45**	260
Provision of services	**328**	231
	373	491

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of medical devices and consumables

Revenue from the sale of medical devices and consumables is recognised at the point in time when control of the asset is transferred to the customer.

Provision of services

Revenue from the product support services is recognised over the service period on a straight-line basis and revenue from research development support services is recognised over time using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group.

Licensing of intellectual property rights

Revenue from the licensing of intellectual property rights is recognised at the point in time when the licensee is granted with a right to use the intellectual property rights.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2022	2021
	USD'000	USD'000
Amounts expected to be recognised as revenue:		
Within one year	**471**	381
After one year	**102**	28
	573	409

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue after one year relate to provision of services, of which the performance obligations are to be satisfied within two years. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

An analysis of other income and gains is as follows:

	2022 USD'000	2021 USD'000
Other income		
Government grants *(note a)*	**497**	1,840
Compensation from a licence agreement	**–**	1,000
Bank interest income	**2,558**	117
Interest income from non-current receivables	**70**	44
Others	**106**	14
	3,231	3,015
Gains		
Foreign exchange gains, net	**691**	–
Fair value gains, net:		
Financial assets at fair value through profit or loss	**863**	–
Gain on disposal of items of property, plant and equipment	**–**	96
Gain on termination of leases	**–**	18
	1,554	114
	4,785	3,129

Note:

(a) In April 2020, the Group's two subsidiaries in the United States received loans totalling USD1,098,000 under the Paycheck Protection Program ("PPP") administered by the Small Business Administration ("SBA"). The PPP is a part of the Coronavirus Aid, Relief, and Economic Security Act enacted by the United States Congress on 27 March 2020 in response to the covid-19 pandemic. The repayment of these loans, including interest, will be forgiven if the above-mentioned received loans comply with the forgiveness requirement of the PPP loan program, which should be approved by SBA. The Group received the notices of PPP forgiveness payment from the SBA regarding the approval of its application for forgiveness of USD311,000 and USD787,000 in principal and associated interest in March and May 2021, respectively, which were recognised as government grants with a total amount of USD1,108,000.

The remaining government grants mainly represent incentives received from the local governments for the purpose of compensation for expenditure arising from research activities and clinical trial activities and awards for new product development and compensation for expenditure incurred on certain projects.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	Notes	2022 USD'000	2021 USD'000
Cost of inventories sold		**2,098**	1,825
Cost of services provided		**–**	64
Cost of licensing of intellectual property rights		**–**	250
Research and development costs*		**19,167**	16,759
Depreciation of property, plant and equipment	*13*	**895**	773
Depreciation of right-of-use assets	*14(a)*	**697**	670
Amortisation of intangible assets**	*15*	**1,256**	1,248
Impairment of trade receivables, net	*17*	**438**	584
Write-down of inventories to net realisable value***		**–**	10
Government grants	*5*	**(497)**	(1,840)
Interest income from non-current receivables	*5*	**(70)**	(44)
Bank interest income	*5*	**(2,558)**	(117)
Compensation from a licence agreement	*5*	**–**	(1,000)
Loss/(gain) on disposal of items of property, plant and equipment		**5**	(96)
Changes in fair value of convertible redeemable preferred shares		**–**	198,874
Lease payments not included in the measurement of lease liabilities	*14(c)*	**402**	331
Auditor's remuneration		**362**	279
Listing expenses		**–**	4,639
Fair value gain, net:			
Financial assets at fair value through profit or loss	*5*	**(863)**	–
Foreign exchange differences, net		**(691)**	322
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**16,913**	13,174
Pension scheme contributions****		**1,521**	1,057
Staff welfare expenses		**3,301**	2,499
Equity-settled share award expenses		**1,123**	3,096
		22,858	19,826

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

6. LOSS BEFORE TAX (CONTINUED)

* The research and development costs include USD11,305,000 (2021: USD8,556,000) relating to employee benefit expense.

** The amortisation of intangible assets for the year is included in "Research and development costs" in the consolidated statement of profit or loss.

*** The write-down of inventories to net realisable value for the year is included in "Cost of sales" in the consolidated statement of profit or loss.

**** There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2022 USD'000	2021 USD'000
Interest on bank borrowings	–	51
Interest on lease liabilities	98	119
	98	170

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2022 USD'000	2021 USD'000
Fees	157	39
Other emoluments:		
Salaries, allowances and benefits in kind	544	519
Pension scheme contributions	12	10
Equity-settled share award expenses	–	5,915
	556	6,444
	713	6,483

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

During the year ended 31 December 2021, certain directors were granted restricted stock units in respect of their services to the Group, further details of which are set out in note 28 to the consolidated financial statements. The fair value of such restricted stock units, which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the consolidated financial statements for the reporting period is included in the above directors' and chief executive's remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2022	2021
	USD'000	USD'000
Dr. Pok Man Kam	**51**	13
Professor Joseph Wan Yee Lau	**51**	13
Dr. Jian Ji*	**38**	13
Ms. Yee Sin Wong*	**17**	–
	157	39

* Dr. Jian Ji resigned as an independent non-executive director on 30 August 2022 and Ms. Yee Sin Wong was appointed as an independent non-executive director on 30 August 2022.

There were no other emoluments payable to the independent non-executive directors during the year (2021: Nil).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(b) Executive director, non-executive directors and the chief executive

	Salaries, allowances and benefits in kind USD'000	Pension scheme contributions USD'000	Total remune-ration USD'000
2022			
Executive directors:			
Mr. Guowei Zhan (chief executive)	236	6	242
Mr. Hong Xu	208	6	214
	444	12	456
Non-executive directors:			
Mr. Michael Yi Wei Zhao	100	–	100
Mr. Zhenjun Zi	–	–	–
Mr. Ao Zhang	–	–	–
	100	–	100
	544	12	556

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(b) Executive director, non-executive directors and the chief executive (Continued)

	Salaries, allowances and benefits in kind USD'000	Pension scheme contributions USD'000	Equity-settled share award expenses USD'000	Total remuneration USD'000
2021				
Executive directors:				
Mr. Guowei Zhan (chief executive)	160	5	–	165
Mr. Hong Xu	170	5	35	210
	330	10	35	375
Non-executive directors:				
Mr. Michael Yi Wei Zhao	189	–	3,920	4,109
Mr. Zhenjun Zi	–	–	1,960	1,960
Mr. Ao Zhang	–	–	–	–
	189	–	5,880	6,069
	519	10	5,915	6,444

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included no director (2021: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining five (2021: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2022 USD'000	2021 USD'000
Salaries, allowances and benefits in kind	**1,431**	764
Pension scheme contributions	**66**	27
Equity-settled share award expenses	**159**	1,263
	1,656	2,054

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2022	2021
HKD2,000,001 to HKD2,500,000	**2**	–
HKD2,500,001 to HKD3,000,000	**2**	–
HKD3,500,001 to HKD4,000,000	**1**	1
HKD4,000,001 to HKD4,500,000	**–**	1
HKD8,000,001 to HKD8,500,000	**–**	1
	5	3

During the year and in prior years, share options were granted to certain non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 28 to the consolidated financial statements. The fair value of such options and restricted stock units, which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the consolidated financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

PRC

Pursuant to the Corporate Income Tax Law of the PRC and the respective regulations (the "CIT Law"), the subsidiaries which operate in Mainland China were entitled to a preferential income tax rate of 2.5% (2021: 2.5%) for small and micro enterprises except that Hangzhou Broncus was subject to CIT at a rate of 15% (2021: 15%) for a High and New Technology Enterprise on the taxable income.

USA

Pursuant to the relevant tax laws of the USA, federal corporation income tax was levied at the rate of up to 21% (2021: 21%) on the taxable income arising in the USA during the year.

Netherlands

The subsidiary incorporated in Netherlands was subject to income tax at the rate of 15% (2021: 15%) on the estimated assessable profits arising in Netherlands during the year.

Australia

The subsidiary incorporated in Australia was subject to income tax at the rate of 27.5% (2021: 27.5%) on the estimated assessable profits arising in Australia during the year.

Cayman Islands

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gains. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax is imposed.

Hong Kong

The subsidiary incorporated in Hong Kong was subject to income tax at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

The income tax expense of the Group during the year is analysed as follows:

	2022 USD'000	2021 USD'000
Current – USA		
Charge for the year	**3**	3

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

10. INCOME TAX (CONTINUED)

A reconciliation of the tax expense applicable to loss before tax at the statutory rate to the tax expense at the effective tax rate is as follows:

	2022 USD'000	2021 USD'000
Loss before tax	**(28,033)**	(236,175)
Tax at the statutory tax rate	**(7,198)**	(6,181)
Preferential tax rates enacted by local authority	**1,845**	2,196
Expenses not deductible for tax	**211**	236
Additional deductible allowance for research and development costs	**(1,522)**	(1,272)
Temporary differences and tax losses not recognised	**6,667**	5,024
Tax charge at the Group's effective tax rate	**3**	3

Deferred tax assets have not been recognised in respect of the following items:

	2022 USD'000	2021 USD'000
Tax losses	**165,262**	135,333
Deductible temporary differences	**7,723**	4,728
	172,985	140,061

The Group had tax losses arising in Mainland China of RMB535,828,000 (equivalent to USD76,945,000) (2021: RMB345,752,000 (equivalent to USD54,214,000)) that will expire in one to ten years (2021: one to ten years) for offsetting against taxable profits.

The Group had tax losses arising in USA of USD37,454,000 (2021: USD37,454,000) that will expire in ten to fifteen years (2021: eleven to sixteen years) for offsetting against taxable profits. The Group had tax losses arising in USA of USD48,109,000 (2021: USD41,442,000) for offsetting against taxable profits indefinitely.

The Group had tax losses arising in Netherlands of USD2,611,000 (2021: USD2,094,000) that will expire in one to six years (2021: two to six years) for offsetting against taxable profits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

10. INCOME TAX (CONTINUED)

The Group had tax losses arising in Australia of USD143,000 (2021: USD129,000) for offsetting against taxable profits indefinitely.

Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

11. DIVIDEND

No dividend has been paid or declared by the Company during the year (2021: Nil).

12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 487,749,376 (2021: 298,960,470) in issue during the year. The number of shares for the current period has been arrived at after eliminating the shares of the Company held under the restricted stock unit scheme.

The calculation of basic loss per share is based on:

	2022	2021
	USD'000	USD'000
Loss		
Loss attributable to ordinary equity holders of the parent, used in the basic loss per share calculation	**(28,036)**	(235,784)

	Number of shares	
	2022	2021
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	**487,749,376**	298,960,470

As the Group incurred losses, no adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2022 and 2021 in respect of a dilution as the impact of the equity-settled share award arrangements had an anti-dilutive effect on the basic loss per share amounts presented.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements USD'000	Machinery USD'000	Office equipment USD'000	Total USD'000
31 December 2022				
At 1 January 2022:				
Cost	2,321	1,157	922	4,400
Accumulated depreciation	(829)	(470)	(372)	(1,671)
Net carrying amount	1,492	687	550	2,729
At 1 January 2022, net of accumulated depreciation	1,492	687	550	2,729
Additions	41	293	474	808
Disposals	–	(41)	(12)	(53)
Depreciation provided during the year *(note 6)*	(442)	(201)	(252)	(895)
Exchange realignment	(110)	(46)	(31)	(187)
At 31 December 2022, net of accumulated depreciation	981	692	729	2,402
At 31 December 2022:				
Cost	2,194	1,325	1,316	4,835
Accumulated depreciation	(1,213)	(633)	(587)	(2,433)
Net carrying amount	981	692	729	2,402

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Leasehold improvements USD'000	Machinery USD'000	Office equipment USD'000	Construction in progress USD'000	Total USD'000
31 December 2021					
At 1 January 2021:					
Cost	450	779	537	1,629	3,395
Accumulated depreciation	(361)	(308)	(253)	–	(922)
Net carrying amount	89	471	284	1,629	2,473
At 1 January 2021, net of accumulated depreciation	89	471	284	1,629	2,473
Additions	–	377	438	202	1,017
Disposals	–	(5)	(27)	–	(32)
Depreciation provided during the year *(note 6)*	(462)	(165)	(146)	–	(773)
Transfers	1,868	–	–	(1,868)	–
Exchange realignment	(3)	9	1	37	44
At 31 December 2021, net of accumulated depreciation	1,492	687	550	–	2,729
At 31 December 2021:					
Cost	2,321	1,157	922	–	4,400
Accumulated depreciation	(829)	(470)	(372)	–	(1,671)
Net carrying amount	1,492	687	550	–	2,729

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

14. LEASES

The Group as a lessee

The Group has lease contracts for warehouses and office premises used in its operations. Leases of warehouses and office premises generally have lease terms between 2 and 5 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There are no lease contracts that include extension and termination options and variable lease payments.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	2022 USD'000	2021 USD'000
As at 1 January	**1,907**	1,984
Additions	**324**	906
Reduction as a result of termination of leases	**(43)**	(351)
Depreciation charge *(note 6)*	**(697)**	(670)
Exchange realignment	**(137)**	38
As at 31 December	**1,354**	1,907

(b) Lease liabilities

The carrying amounts of lease liabilities and the movements during the year are as follows:

	2022 USD'000	2021 USD'000
Carrying amount at 1 January	**1,935**	1,931
New leases	**324**	906
Accretion of interest recognised during the year	**98**	119
Reduction as a result of termination of leases	**(43)**	(369)
Exchange realignment	**(165)**	46
Payments	**(707)**	(698)
Carrying amount at 31 December	**1,442**	1,935
Analysed into:		
Current portion	**652**	739
Non-current portion	**790**	1,196

The maturity analysis of lease liabilities is disclosed in note 34 to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

14. LEASES (CONTINUED)

The Group as a lessee (Continued)

(c) The amounts recognised in the consolidated statement of profit or loss in relation to leases are as follows:

	2022 USD'000	2021 USD'000
Interest on lease liabilities	**98**	119
Depreciation charge of right-of-use assets	**697**	670
Gain on termination of leases	**–**	(18)
Expense relating to short-term leases (included in selling expenses, administrative expenses and research and development costs) *(note 6)*	**402**	331
Total amount recognised in profit or loss	**1,197**	1,102

(d) The total cash outflow for leases is disclosed in note 30(c) to the consolidated financial statements.

The Group as a lessor

The Group leases its medical devices in European Union under operating lease arrangements and financing lease arrangements with leases negotiated for terms within one year and within eight years, respectively. Rental income recognised by the Group during the year was USD48,000 (2021: USD10,000), details of which are included in note 5 to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

15. INTANGIBLE ASSETS

	Software USD'000	Intellectual properties USD'000	Total USD'000
31 December 2022			
At 1 January 2022:			
Cost	**139**	**16,340**	**16,479**
Accumulated amortisation	**(47)**	**(9,396)**	**(9,443)**
Net carrying amount	**92**	**6,944**	**7,036**
Cost at 1 January 2022, net of accumulated amortisation	**92**	**6,944**	**7,036**
Additions	**136**	**–**	**136**
Amortisation provided during the year *(note 6)*	**(20)**	**(1,236)**	**(1,256)**
Exchange realignment	**(6)**	**–**	**(6)**
At 31 December 2022, net of accumulated amortisation	**202**	**5,708**	**5,910**
At 31 December 2022:			
Cost	**268**	**16,340**	**16,608**
Accumulated amortisation	**(66)**	**(10,632)**	**(10,698)**
Net carrying amount	**202**	**5,708**	**5,910**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

15. INTANGIBLE ASSETS (CONTINUED)

	Software USD'000	Intellectual properties USD'000	Total USD'000
31 December 2021			
At 1 January 2021:			
Cost	113	16,340	16,453
Accumulated amortisation	(35)	(8,160)	(8,195)
Net carrying amount	78	8,180	8,258
Cost at 1 January 2021, net of accumulated amortisation	78	8,180	8,258
Additions	26	–	26
Amortisation provided during the year (note 6)	(12)	(1,236)	(1,248)
At 31 December 2021, net of accumulated amortisation	92	6,944	7,036
At 31 December 2021:			
Cost	139	16,340	16,479
Accumulated amortisation	(47)	(9,396)	(9,443)
Net carrying amount	92	6,944	7,036

16. INVENTORIES

	2022 USD'000	2021 USD'000
Raw materials	**1,937**	2,242
Work in progress	**254**	489
Finished goods	**2,107**	1,461
	4,298	4,192

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

17. TRADE AND BILLS RECEIVABLES

	2022 USD'000	2021 USD'000
Current		
Trade receivables	**9,837**	5,996
Bills receivable	**–**	514
	9,837	6,510
Non-current		
Trade receivables	**1,494**	1,682
	11,331	8,192
Impairment	**(1,240)**	(848)
	10,091	7,344

Certain of the Group's trading terms with its customers are on credit. The credit period is generally three to six months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Included in the Group's trade receivables were an amount of USD1,987,000 (2021: USD1,924,000) due from a Group's related party.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2022 USD'000	2021 USD'000
Within 3 months	**5,511**	4,194
3 to 6 months	**67**	1,951
6 to 12 months	**1,914**	667
1 to 2 years	**2,599**	18
	10,091	6,830

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

17. TRADE AND BILLS RECEIVABLES (CONTINUED)

The movements in the loss allowance for impairment of trade receivables are as follows:

	2022 USD'000	2021 USD'000
At beginning of year	848	257
Impairment losses, net *(note 6)*	438	584
Exchange realignment	(46)	7
At end of year	1,240	848

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2022

	Gross carrying amount USD'000	Expected credit loss rate	Expected credit loss USD'000
Individually assessed:			
Trade receivables from licensing	1,988	0.05%	1
Collectively assessed:			
Less than 1 year	7,681	2.46%	189
1 to 2 years	946	35.31%	334
Over 2 years	716	100.00%	716
	11,331		1,240

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

17. TRADE AND BILLS RECEIVABLES (CONTINUED)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix: (Continued)

As at 31 December 2021

	Gross carrying amount USD'000	Expected credit loss rate	Expected credit loss USD'000
Individually assessed:			
Trade receivables from licensing	1,925	0.05%	1
Collectively assessed:			
Less than 1 year	4,996	2.16%	108
1 to 2 years	28	35.71%	10
2 to 3 years	729	100.00%	729
	7,678		848

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2022 USD'000	2021 USD'000
Current		
Prepayments	**1,164**	820
Deposits and other receivables	**333**	342
Value-added tax recoverable	**13**	424
	1,510	1,586
Non-current		
Advance payments for long-term assets	**27**	115
Deposits	**152**	160
Prepayments	**68**	176
	247	451
	1,757	2,037

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2022 and 2021, the loss allowance was assessed to be minimal.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 USD'000	2021 USD'000
Unlisted debt investments, at fair value	**7,603**	–

The above unlisted debt investments were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

20. CASH AND CASH EQUIVALENTS AND DEPOSITS

	2022 USD'000	2021 USD'000
Cash and bank balances	**49,613**	209,650
Time deposits	**138,822**	17,795
	188,435	227,445
Less:		
Pledged for bank overdraft facilities *(note 24)*	**(25)**	(25)
Pledged for service and rent deposits	**(501)**	(213)
Time deposits with original maturity over three months	**(81,153)**	–
Cash and cash equivalents	**106,756**	227,207
Denominated in:		
USD	**37,600**	98,359
RMB	**13,955**	22,682
HKD	**55,140**	106,093
AUD	**10**	29
EUR	**10**	38
Swiss Franc ("CHF")	**41**	6
Total cash and cash equivalents	**106,756**	227,207

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

21. FINANCE LEASE RECEIVABLES

	2022 USD'000	2021 USD'000
Finance lease receivables	98	128
Unrealised finance income	(6)	(12)
Finance lease receivables, net	92	116
Analysed into:		
Current portion	25	44
Non-current portion	67	72

An ageing analysis of the finance lease receivables of the Group as at the end of the reporting period, based on the lease commencement date, is as follows:

	2022 USD'000	2021 USD'000
2 to 3 years	–	116
Over 3 years	92	–
	92	116

At the end of the reporting period, the total undiscounted lease payments receivable by the Group in future periods under finance leases with its tenant are as follows:

	2022 USD'000	2021 USD'000
Within one year	25	44
After one year but within two years	25	21
After two years but within three years	25	21
After three years but within four years	23	21
After four years but within five years	–	21
	98	128
Unrealised finance income	(6)	(12)
	92	116

There was no unguaranteed residual value in connection with finance lease arrangements or contingent lease arrangements of the Group that need to be recorded as at the end of the reporting period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

22. TRADE PAYABLES

	2022 USD'000	2021 USD'000
Trade payables	**321**	400

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

	2022 USD'000	2021 USD'000
Within 3 months	**308**	397
3 to 6 months	**11**	1
6 to 12 months	**1**	2
Over 1 year	**1**	–
	321	400

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

23. OTHER PAYABLES AND ACCRUALS

	2022 USD'000	2021 USD'000
Current		
Other payables	**1,253**	3,920
Accrued expenses	**1,142**	722
Accrued payroll	**3,400**	2,691
Taxes payable other than corporate income tax	**321**	105
	6,116	7,438
Non-current		
Accrued expenses	**175**	200
	6,291	7,638

Other payables are non-interest-bearing and repayable on demand.

Included in the Group's other payables and accruals were amounts due to a Group's related party of USD116,000 (2021: USD244,000).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

24. BANK OVERDRAFTS

	Effective interest rate (%)	Maturity	*Note*	**As at 31 December 2022 USD'000**	As at 31 December 2021 USD'000
Current					
Bank overdrafts					
– secured	–	On demand	*(a)*	**29**	13
Analysed into:					
Within one year or on demand				**29**	13

Note:

(a) The Group's overdraft facilities amounting to USD80,000 (2021: USD80,000), of which USD29,000 (2021: USD13,000) had been utilised, were secured by the pledge of certain of the Group's time deposits amounting to USD25,000 (2021: USD25,000) (note 20).

25. CONTRACT LIABILITIES

The Group recognised the following revenue-related contract liabilities:

	2022 USD'000	2021 USD'000
Current		
Sale of medical devices and consumables	**30**	46
Service fee	**269**	328
	299	374
Non-current		
Service fee	**102**	28
Total contract liabilities	**401**	402

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

26. SHARE CAPITAL

The Company was incorporated in the Cayman Islands on 30 April 2012 with an initial authorised share capital of USD50,000 with a par value of USD1 each. On 22 May 2014, the then authorised share capital was sub-divided into 500,000,000 shares with a par value of USD0.0001 each. On 7 September 2021, the then authorised and issued share capital was sub-divided into four shares with a par value of USD0.000025 each (the "Share Subdivision").

	2022 USD'000	2021 USD'000
Authorised:		
2,000,000,000 (2021: 2,000,000,000) ordinary shares of USD0.000025 (2021: USD0.000025) each	**50,000**	50,000
Issued and fully paid:		
488,296,236 (2021: 487,212,984) ordinary shares of USD0.000025 (2021: USD0.000025) each	**12**	12
Issued but not paid:		
38,576,840 (2021: 39,347,844) ordinary shares of USD0.000025 (2021: USD0.000025) each	**1**	1
	13	13

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

26. SHARE CAPITAL (CONTINUED)

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital USD'000
At 1 January 2021	55,944,670	6
New issues on 12 May 2021 *(note a)*	3,168,375	–
New issues on 7 September 2021 *(note b)*	9,877,197	–
Automatic conversion of convertible redeemable preferred shares into ordinary shares *(note c)*	40,075,204	4
Effect of Share Subdivision	327,196,338	–
Issue of shares for the initial public offering on 24 September 2021 *(note d)*	89,355,000	2
Share options exercised in December 2021 *(note e)*	944,044	–
At 31 December 2021 and 1 January 2022	526,560,828	12
Share options exercised during the year *(note f)*	312,248	–
At 31 December 2022	526,873,076	12

Notes:

(a) On 12 May 2021, the Company issued 3,168,375 shares of the Company to the shareholders or their respective designated affiliates of DNA-Broncus Management Co-Investment Ltd. ("DNA-Broncus"), the minority shareholder of one of the Group's subsidiaries, BCH, as the consideration to repurchase all of the shares held by DNA-Broncus in BCH, after which BCH became a wholly-owned subsidiary of the Company.

(b) On 7 September 2021, the Company allotted 9,877,197 shares to Computershare Hong Kong Trustees Limited, the trustee appointed by the Company to hold shares on trust for grantees under a restricted stock unit scheme.

(c) Upon completion of the initial public offering, each issued convertible redeemable preferred share was converted into an ordinary share.

(d) In connection with the Company's initial public offering, 89,355,000 ordinary shares of USD0.000025 each were issued at a price of HKD18.70 per share for a total cash consideration, before expenses, of HKD1,670,938,500 (equivalent to approximately USD214,613,000). Dealings in these shares on the Stock Exchange commenced on 24 September 2021.

(e) The subscription rights attaching to 944,044 share options were exercised at the subscription price between HKD1.34 and HKD6.35 per share, resulting in the issue of 944,044 ordinary shares of the Company for a total cash consideration of HKD2,232,000 (equivalent to approximately USD286,000).

(f) The subscription rights attaching to 312,248 share options were exercised at the subscription price between HKD1.34 and HKD6.35 per share, resulting in the issue of 312,248 ordinary shares of the Company for a total cash consideration of HKD539,000 (equivalent to approximately USD70,000).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

27. RESERVES

The amounts of the Group's reserves and the movements therein for the reporting period are presented in the consolidated statement of changes in equity of the consolidated financial statements.

Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the constitutional documents and the Companies Law of the Cayman Islands, the share premium is distributable as dividend on the condition that the Company is able to pay its debts when they fall due in the ordinary course of business at the time the proposed dividend is to be paid.

Other reserve

The Group's other reserve includes:

(1) The capital reserve of the Group represents the paid-up capital and share premium of the companies comprising the Group, details of the movements in the capital reserve are set out in the consolidated statement of changes in equity, and

(2) The excess of consideration for purchasing the shares of its subsidiary held by a non-controlling shareholder over the proportion of the carrying amounts of the subsidiary's net assets acquired.

Share option reserve

Share option reserve of the Group represents the share-based compensation reserve from equity-settled share award.

Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of entities of which the functional currencies are not USD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

28. SHARE-BASED PAYMENTS

The Group's subsidiaries operate share-based payment schemes (the "Subsidiaries' Schemes") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Subsidiaries' Schemes include the Company's directors and the Group's employees.

The share options have vesting terms (share options shall vest in equal monthly instalments) in schedule from the grant date and there is no performance target required except that the eligible participant remains in service for the Group during the vesting period. The exercise price of the share options vary with each person and share plan.

As part of the Group's reorganisation, in May 2021, the Company adopted equity incentive plans (the "Company's Schemes") to exchange share options granted in each of the subsidiaries for share options or restricted stock units ("RSUs") of the Company. The incremental fair value resulting from the exchange at the replacement date was USD2,165,000, which would be recognised over the remaining vesting period.

In addition, new RSUs granted by the Group during the year are as follows:

Date of grant	Grantor	Type	Number	Vesting period (months)	Exercise price (USD)
May 2022	Company	RSUs	1,850,826	–	–
June 2022	Company	RSUs	2,163,064	–	0.21
June 2022	Company	RSUs	450,000	12-36	0.21
September 2022	Company	RSUs	1,500,000	18-57	–
September 2022	Company	RSUs	1,500,000	18-54	Note
December 2022	Company	RSUs	211,601	12-36	–

Note: Exercise price is the average closing price of the Company in the last five trading days prior to January 1 of the year preceding each vesting date multiplied by 80%

In June 2022, certain RSUs were granted to two selected specialists with a consideration of USD543,000. The shares granted were to reward the past contribution of the specialists made to the growth and development of the Group.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

28. SHARE-BASED PAYMENTS (CONTINUED)

Movements in the number of share options granted under the Subsidiaries' Schemes and Company's Schemes in total and their related weighted average exercise price are as below:

	2022		2021	
	Weighted average exercise price USD/share	Number of options	Weighted average exercise price USD/share	Number of options
Outstanding at beginning of the year	**0.43**	**11,664,561**	0.54	7,744,872
Granted during the year	**–**	**–**	4.33	396,929
Replacement during the year	**–**	**–**	N/A	(4,839,940)
Forfeited or expired during the year	**0.57**	**(1,165,449)**	1.23	(149,710)
Effect of Share Subdivision	**–**	**–**	N/A	9,456,454
Exercised during the year	**0.22**	**(312,248)**	0.30	(944,044)
Outstanding at end of the year	**0.42**	**10,186,864**	0.43	11,664,561

Movements in the number of RSUs granted under the Company's Schemes and their related weighted average exercise price are as below:

	2022		2021	
	Weighted average exercise price USD/share	Number of RSUs	Weighted average exercise price USD/share	Number of RSUs
Outstanding at beginning of the year	**0.06**	**13,349,196**	–	–
Granted during the year	**0.12**	**7,675,491**	0.25	1,670,339
Replacement during the year	**–**	**–**	0.26	1,707,196
Effect of Share Subdivision	**–**	**–**	N/A	10,132,605
Exercised during the year	**0.06**	**(771,004)**	–	(160,944)
Outstanding at end of the year	**0.08**	**20,253,683**	0.06	13,349,196

During the year, share-based expenses of USD1,123,000 (2021: USD9,011,000) were charged to the consolidated statement of profit or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

28. SHARE-BASED PAYMENTS (CONTINUED)

The fair values of equity-settled share options and RSUs granted were estimated as at the date of grant using binomial model and Monto Carlo model, taking into account the terms and conditions upon which the options and RSUs were granted. The following table lists the key assumptions that the model used:

	2022	2021	
	RSUs	Share options	RSUs
Expected volatility (%)	**39.50-40.30**	49.00-49.31	48.92-49.00
Risk-free interest rate (%)	**3.22-3.81**	1.30-1.35	1.30-1.58
Expected life (year)	**10.0**	8.0-10.0	0-0.1
Weighted average share price (USD)	**0.13-0.16**	2.01-2.17	3.63-4.36

29. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2022	2021
	USD'000	USD'000
Contracted, but not provided for:		
Capital contribution payable to purchase limited partnership interests	**–**	3,000

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

In March and May 2021, the Group received the notices of PPP forgiveness payment from the SBA regarding the approval of its application for forgiveness of the bank borrowings of USD1,098,000 in principal and their associated interest of USD10,000 in total.

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of USD324,000 (2021: USD906,000) and USD324,000 (2021: USD906,000), respectively, in respect of lease arrangements for warehouses and office premises.

During the year, the Group had non-cash reductions to right-of-use assets and lease liabilities of USD43,000 (2021: USD351,000) and USD43,000 (2021: USD369,000), respectively, in respect of termination of leases for warehouses and office premises.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Changes in liabilities arising from financing activities

	Lease liabilities USD'000	Bank overdrafts USD'000
At 1 January 2022	**1,935**	**13**
Changes from financing cash flows	**(707)**	**16**
Interest expense	**98**	**–**
New leases	**324**	**–**
Reduction as a result of termination of leases	**(43)**	**–**
Foreign exchange difference	**(165)**	**–**
At 31 December 2022	**1,442**	**29**

	Interest payable USD'000	Lease liabilities USD'000	Interest-bearing bank and other borrowings USD'000	Convertible redeemable preferred shares USD'000
At 1 January 2021	190	1,931	4,188	146,137
Changes from financing cash flows	(231)	(698)	(3,102)	39,000
Interest expense	51	119	–	–
Transfer from other payables	–	–	–	1,000
New leases	–	906	–	–
Reduction as a result of termination of leases	–	(369)	–	–
Changes in fair value of convertible redeemable preferred shares	–	–	–	198,874
Automatic conversion of convertible redeemable preferred shares into ordinary shares	–	–	–	(385,011)
Government grants from forgiveness of interest-bearing bank loans and associated interest expenses	(10)	–	(1,098)	–
Foreign exchange difference	–	46	25	–
At 31 December 2021	–	1,935	13	–

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

	2022 USD'000	2021 USD'000
Within operating activities	**402**	331
Within financing activities	**707**	698
	1,109	1,029

31. RELATED PARTY TRANSACTIONS

Name	Relationship
Intuitive Surgical Operations, Inc. ("Intuitive Surgical")	Shareholder
Hangzhou Dinova Medical Technology Co., Ltd. ("Hangzhou Dinova")	An entity controlled by Mr. Michael Yi Wei Zhao
Hangzhou Weiqiang Medical Technology Co., Ltd. ("Hangzhou Weiqiang")	An entity controlled by Mr. Michael Yi Wei Zhao
NoahTron Intelligence Medtech (Hangzhou) Co., Ltd. ("NoahTron Intelligence")	An entity controlled by Mr. Michael Yi Wei Zhao

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

31. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) In addition to the transactions detailed in note 8 to the consolidated financial statements, the Group had the following transactions with related parties during the year:

	2022 USD'000	2021 USD'000
Purchase from:		
Hangzhou Weiqiang *(note (i))*	–	51
Compensation income from:		
Intuitive Surgical *(note (i))*	–	1,000
Management service from:		
Hangzhou Dinova *(note (ii))*	172	244
Licensing of intellectual property rights to:		
NoahTron Intelligence *(note (i))*	–	2,152

Notes:

(i) The purchase prices, compensation amount and license fees were determined by arm's length negotiation between the parties and on normal commercial terms.

(ii) The fees paid for management service were charged based on the actual costs.

(b) Outstanding balances with related parties:

	2022 USD'000	2021 USD'000
Other payables and accruals:		
Hangzhou Dinova*	116	244
Trade receivables:		
NoahTron Intelligence*	1,987	1,924

On 7 September 2021, a subsidiary of the Group entered into a licence agreement with NoahTron Intelligence and a non-exclusive licence was granted to NoahTron Intelligence by payment at USD250,000 per year for a period of ten years.

The other payables and accruals to Hangzhou Dinova were unsecured, interest-free and repayable on demand.

* The balances are trade in nature.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

31. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Compensation of key management personnel of the Group:

	2022 USD'000	2021 USD'000
Salaries, allowances and benefit in kind	**1,033**	1,047
Pension scheme contributions	**25**	30
Equity-settled share award expenses	**96**	6,668
Total compensation paid to key management personnel	**1,154**	7,745

Further details of directors' remuneration are included in note 8 to the consolidated financial statements.

The related party transactions in respect of licensing of intellectual property rights to NoahTron Intelligence and management service fee from Hangzhou Dinova above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2022

Financial assets

	Financial assets at fair value through profit or loss USD'000	Financial assets at amortised cost USD'000
Trade and bills receivables	–	10,091
Finance lease receivables	–	92
Financial assets included in prepayments other receivables and other assets	–	485
Financial assets at fair value through profit or loss	7,603	–
Pledged deposits	–	526
Cash and cash equivalents	–	106,756
Time deposits with original maturity over three months	–	81,153
	7,603	199,103

Financial liabilities

	Financial liabilities at amortised cost USD'000
Trade payables	321
Financial liabilities included in other payables and accruals	1,253
Bank overdrafts	29
	1,603

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

32. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

2021

Financial assets

	Financial assets at amortised cost USD'000
Trade and bills receivables	7,344
Finance lease receivables	116
Financial assets included in prepayments other receivables and other assets	502
Pledged deposits	238
Cash and cash equivalents	227,207
	235,407

Financial liabilities

	Financial liabilities at amortised cost USD'000
Trade payables	400
Financial liabilities included in other payables and accruals	3,920
Bank overdrafts	13
	4,333

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, time deposits with original maturity over three months, pledged deposits, financial assets included in prepayments, other receivables and other assets, trade and bills receivables, finance lease receivables, trade payables, bank overdrafts and financial liabilities included in other payables approximate to their carrying amounts largely due to the short-term maturities of these instruments. All the carrying amounts of the Group's non-current financial assets and financial liabilities approximate to their fair value.

The Group's finance department headed by the chief financial officer is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the chief financial officer. At the end of the reporting period, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the finance controller. The valuation process and results are discussed with the directors of the Company periodically for financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of the trade receivables, finance lease receivables and financial assets included in prepayments, other receivables and other assets have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair values of financial assets at fair value through profit or loss have been estimated by backsolve method and investment cost method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1) USD'000	Significant observable inputs (Level 2) USD'000	Significant unobservable inputs (Level 3) USD'000	Total USD'000
Financial assets at fair value through profit or loss	–	7,603	–	7,603

The Group did not have any financial assets measured at fair value as at 31 December 2021.

The Group did not have any financial liabilities measured at fair value as at 31 December 2022 and 2021.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents, time deposits with original maturity over three months. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade, bills and other receivables and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between USD and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The following table demonstrates the sensitivity as at the end of the reporting period to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's loss before tax (arising from foreign currencies denominated financial instruments) and the Group's equity.

	Increase/ (decrease) in rate of foreign currency %	Increase/ (decrease) in loss before tax USD'000	(Increase)/ decrease in equity USD'000
31 December 2022			
If USD weakens against RMB	**5**	**2,526**	**2,633**
If USD strengthens against RMB	**(5)**	**(2,526)**	**(2,633)**
If USD weakens against HKD	**5**	**(5,289)**	**(5,289)**
If USD strengthens against HKD	**(5)**	**5,289**	**5,289**
If USD weakens against EUR	**5**	**(59)**	**(59)**
If USD strengthens against EUR	**(5)**	**59**	**59**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (Continued)

	Increase/ (decrease) in rate of foreign currency %	Increase/ (decrease) in loss before tax USD'000	(Increase)/ decrease in equity USD'000
31 December 2021			
If USD weakens against RMB	5	(745)	(745)
If USD strengthens against RMB	(5)	745	745
If USD weakens against HKD	5	(5,255)	(5,255)
If USD strengthens against HKD	(5)	5,255	5,255
If USD weakens against EUR	5	(43)	(43)
If USD strengthens against EUR	(5)	43	43

Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, time deposits with maturity over three months, pledged deposits, finance lease receivables, trade and bills receivables and financial assets included in prepayments, other receivables and other assets. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on ageing information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Maximum exposure and year-end staging (Continued)

As at 31 December 2022

	12-month ECLs	Lifetime ECLs			
	Stage 1 USD'000	Stage 2 USD'000	Stage 3 USD'000	Simplified approach USD'000	Total USD'000
Trade receivables*	–	–	–	11,331	11,331
Finance lease receivables	–	–	–	92	92
Financial assets included in prepayments, other receivables and other assets					
– Normal**	485	–	–	–	485
Pledged deposits					
– Not yet past due	526	–	–	–	526
Cash and cash equivalents					
– Not yet past due	106,756	–	–	–	106,756
Time deposits with maturity over three months					
– Not yet past due	81,153	–	–	–	81,153
	188,920	–	–	11,423	200,343

As at 31 December 2021

	12-month ECLs	Lifetime ECLs			
	Stage 1 USD'000	Stage 2 USD'000	Stage 3 USD'000	Simplified approach USD'000	Total USD'000
Trade receivables*	–	–	–	7,678	7,678
Bills receivable**	514	–	–	–	514
Finance lease receivables	–	–	–	116	116
Financial assets included in prepayments, other receivables and other assets					
– Normal**	502	–	–	–	502
Pledged deposits					
– Not yet past due	238	–	–	–	238
Cash and cash equivalents					
– Not yet past due	227,207	–	–	–	227,207
	228,461	–	–	7,794	236,255

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Maximum exposure and year-end staging (Continued)

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 17 to the consolidated financial statements.

** The credit quality of the bills receivable and financial assets included in prepayments, other receivables and other assets and an amount due from a related party is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 17 to the consolidated financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. At the end of the reporting period, the Group had certain concentrations of credit risk as 51.7% (2021: 26.4%) and 79.6% (2021: 65.3%) of the Group's trade receivables were due from the Group's largest debtor and five largest debtors, respectively.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the operations and mitigate the effects of fluctuations in cash flows.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	As at 31 December 2022				
	On demand USD'000	Less than 3 months USD'000	3 to 12 months USD'000	1 to 5 years USD'000	Total USD'000
Trade payables	16	305	–	–	321
Financial liabilities included in other payables and accruals	18	1,040	93	102	1,253
Lease liabilities	–	198	500	866	1,564
Bank overdrafts	29	–	–	–	29
	63	1,543	593	968	3,167

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

	As at 31 December 2021				
	On demand USD'000	Less than 3 months USD'000	3 to 12 months USD'000	1 to 5 years USD'000	Total USD'000
Trade payables	93	307	–	–	400
Financial liabilities included in other payables and accruals	140	3,707	55	18	3,920
Lease liabilities	–	115	421	1,583	2,119
Bank overdrafts	13	–	–	–	13
	246	4,129	476	1,601	6,452

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group monitors capital (including share capital and preferred shares on an as-converted basis) by regularly reviewing the capital structure. As a part of this review, the Group considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares.

35. EVENT AFTER THE REPORTING PERIOD

Hangzhou Broncus has entered into a partnership agreement on 28 March 2023, pursuant to which it has agreed to subscribe for a capital contribution in the amount of RMB125,000,000 as a limited partner, representing approximately 24.75% of the total capital contribution to the partnership fund. The partnership fund aims to focus on direct or indirect equity or equity-related investments in the digital medical devices and projects of related industries space.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2022 USD'000	2021 USD'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**206,135**	173,658
Prepayments, other receivables and other assets	**35**	83
Total non-current assets	**206,170**	173,741
CURRENT ASSETS		
Due from subsidiaries	**10,872**	7,893
Financial assets at fair value through profit or loss	**4,013**	–
Prepayments, other receivables and other assets	**131**	41
Cash and cash equivalents	**92,200**	214,655
Time deposits with original maturity over three months	**81,153**	–
Total current assets	**188,369**	222,589
CURRENT LIABILITIES		
Other payables and accruals	**297**	2,592
Total current liabilities	**297**	2,592
NET CURRENT ASSETS	**188,072**	219,997
TOTAL ASSETS LESS CURRENT LIABILITIES	**394,242**	393,738
Net assets	**394,242**	393,738
EQUITY		
Share capital	**12**	12
Reserves *(note)*	**394,230**	393,726
Total equity	**394,242**	393,738

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2022

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium USD'000	Other reserve USD'000	Share option reserve USD'000	Accumulated losses USD'000	Total USD'000
At January 2022	**592,019**	**59,042**	**15,573**	**(272,908)**	**393,726**
Total comprehensive income for the year	**–**	**–**	**–**	**372**	**372**
Equity-settled share award arrangements	**–**	**–**	**1,117**	**–**	**1,117**
Issue of shares upon the exercise of share award arrangements	**783**	**–**	**(713)**	**–**	**70**
Transfer of share option reserve upon the forfeiture or expiry of share options	**–**	**–**	**(1,104)**	**–**	**(1,104)**
Exercise of restricted share units	**632**	**–**	**(583)**	**–**	**49**
At 31 December 2022	**593,434**	**59,042**	**14,290**	**(272,536)**	**394,230**

	Share premium USD'000	Other reserve USD'000	Share option reserve USD'000	Accumulated losses USD'000	Total USD'000
At January 2021	–	46,728	–	(62,180)	(15,452)
Total comprehensive income for the year	–	–	–	(210,728)	(210,728)
Equity-settled share award arrangements	–	–	15,573	–	15,573
Issue of shares for the acquisition of non-controlling interests	–	12,314	–	–	12,314
Issue of shares for the initial public offering	214,611	–	–	–	214,611
Issue of shares upon the exercise of share award arrangements	286	–	–	–	286
Automatic conversion of convertible redeemable preferred shares into ordinary shares	385,007	–	–	–	385,007
Share issue expenses	(7,885)	–	–	–	(7,885)
At 31 December 2021	592,019	59,042	15,573	(272,908)	393,726

37. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 29 March 2023.

DEFINITIONS

"AGM"	the annual general meeting of the Company to be held on Monday, May 15, 2023
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board" or "Board of Directors"	the board of Directors
"CG Code"	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Company"	Broncus Holding Corporation (堃博医疗控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on April 30, 2012, whose Shares were listed and traded on the Stock Exchange
"COPD"	chronic obstructive pulmonary disease
"Director(s)"	member(s) of our board of directors, including all executive, non-executive and independent non-executive directors
"EU"	the European Union
"Global Offering"	the global offering of the Shares, comprising the Hong Kong public offering of 8,935,500 Shares and the international offering of 80,419,500 Shares
"Group," "our Group," "we" or "us"	the Company and our subsidiaries (or the Company and any one or more of our subsidiaries, as the context may require)
"HK$" or "HK dollars" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"InterVapor"	InterVapor System, the world's first and only Thermal Vapor Treatment System to treat lung diseases including COPD and lung cancer
"Listing"	the listing of the Shares on the Stock Exchange
"Listing Date"	September 24, 2021, being the date on which the Shares were listed on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

"Memorandum and Articles of Association"	the existing memorandum of association and articles of association of the Company
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"NMPA"	National Medical Products Administration (國家藥品監督管理局) and its predecessor, the China Food and Drug Administration (國家食品藥品監督管理總局)
"PRC" or "China" or the "People's Republic of China"	the People's Republic of China, which for the purpose of this annual report and for geographical reference only, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"R&D"	Research and development
"Reporting Period"	12 months ended December 31, 2022
"RF-II"	RF Generator + RF Ablation Catheter, a radiofrequency ablation system used in conjunction with a disposable lung radiofrequency ablation catheter and the only radiofrequency ablation system that specifically targets lung cancer
"Shares"	ordinary share(s) in the share capital of the Company
"Shareholders"	holders of the Shares
"sq.m."	square meters
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"U.S." or "United States"	the United States of America
"US$" or "U.S. dollars"	United States dollars, the lawful currency for the time being of the United States
"%"	per cent

FINANCIAL SUMMARY

	For the year ended December 31			
	2022	2021	2020	2019
	US$'000	US$'000	US$'000	US$'000
Revenue	**9,413**	10,891	3,259	8,072
Gross profit	**7,315**	8,742	2,506	5,978
Loss before tax	**(28,033)**	(236,175)	(48,784)	(32,549)
Loss for the year	**(28,036)**	(236,178)	(48,786)	(32,551)
Loss attributable to:				
Owners of the parent	**(28,036)**	(235,784)	(48,237)	(31,929)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT				
Basic and diluted (US$)	**(0.06)**	(0.79)	(0.22)	(0.14)

	As at December 31			
	2022	2021	2020	2019
	US$'000	US$'000	US$'000	US$'000
Total non-current assets	**19,076**	14,089	13,195	12,947
Total current assets	**202,866**	238,717	26,682	9,056
Total current liabilities	**7,417**	8,964	14,227	14,144
Total non-current liabilities	**1,067**	1,424	148,091	81,739
Non-controlling interests	**–**	–	(1,928)	(1,516)
Total equity	**213,458**	242,418	(122,441)	(73,880)