QT VASCULAR LTD.
(Company Registration No. 201305911K)
(Incorporated in Singapore)

DISCLAIMER OF OPINION BY THE INDEPENDENT AUDITORS ON THE FINANCIAL STATEMENTS OF THE GROUP AND THE COMPANY WITHIN THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Pursuant to Rule 704(4) of the Listing Manual Section B: Rules of Catalist ("**Catalist Rules**") of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), the Board of Directors (the "**Board**") of QT Vascular Ltd. (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to announce that the Company's independent auditor, KPMG LLP, have included a disclaimer of opinion in the independent auditors' report ("**Independent Auditors' Report**") in respect of the Company's consolidated financial statements for the financial year ended 31 December 2019 ("**FY2019**") (the "**Annual Report Financial Statements**").

The Annual Report Financial Statements and the Independent Auditors' Report can also be found in the Company's annual report for FY2019, which will be released via the SGXNET in due course.

Relevant extracts from the Annual Report Financial Statements are as follows:

Disclaimer of opinion

We were engaged to audit the financial statements of QT Vascular Ltd. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements. Due to the significance of the matters described in the 'Basis for disclaimer of opinion' section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

(a) The Group's non-current assets as at 31 December 2019 include intangible assets of US$8,289,000. As disclosed in Note 6 to the financial statements:

- *the Group has estimated the recoverable amount of the intangible assets in relation to Chocolate Touch® based on a fair value less cost of disposal method, using the on-going sale consideration in negotiation which included contingent considerations. Key assumptions applied to arrive at the recoverable amounts include, inter alia, the following:*
  - *Completion of sale of Chocolate Touch®; and*
  - *Successful development of Chocolate Touch® by purchaser resulting in sufficient contingent considerations.*

- *the Group has estimated the recoverable amount of the other intangible assets based on the value-in-use computation.*

We were unable to obtain sufficient appropriate audit evidence regarding the key assumptions applied to arrive at the recoverable amounts of the intangible assets relating to Chocolate Touch® and the other intangible assets, which includes Chocolate Heart, with carrying amounts of US$6,465,000 and US$1,824,000 respectively. We were therefore unable to determine whether an impairment amount should have been recognised by the Group in respect of these assets.

(b) The carrying amount of the investments in subsidiaries shown in the Company's statement of financial position as at 31 December 2019 of US$19,197,000 is supported by the value of the intangible assets held by the respective subsidiaries. Arising from the above, we were therefore similarly unable to determine whether an impairment amount should have been recognised by the Company in respect of these assets.

Consequently, we were unable to determine whether any adjustments were necessary in respect of the accompanying consolidated statement of financial position of the Group and statement of financial position of the Company as at 31 December 2019, and the consolidated statement of comprehensive income and consolidated statement of changes in equity for the year ended 31 December 2019.

We considered the impact of the above items to be material and pervasive to the overall financial statements of the Group and the Company.

We also draw attention to Note 2 to the financial statements which indicates that the Group incurred a net loss of US$9,643,000 during the year ended 31 December 2019 and, as of that date, the Group's current liabilities exceeded its current assets by US$402,000. At 31 December 2019, the Group was in breach of a covenant from a third-party loan of US$1,363,000 due in November 2020. The loan is now due immediately. As stated in Note 2, the Group's ability to continue as a going concern is dependent on the outcome of the disposal of its intangible asset in respect of Chocolate Touch® as well as the outcome of potential fund-raising exercise and certain deferral of loans due to third parties. These events or conditions, along with other matters as set forth in Note 2, indicate the existence of multiple material uncertainties which may cast significant doubt about the Group's and Company's ability to continue as a going concern.

Note 2 of the Annual Report Financial Statements

Going concern

The consolidated financial statements have been prepared on a going concern basis which assumes that the Group will be able to meet its obligations for the foreseeable future.

The Group recorded net loss of US$9,643,000 (2018: net gain of US$29,572,000) for the year ended 31 December 2019 and as at that date, the statement of financial position showed net current liabilities of US$402,000 (2018: net current assets of US$8,306,000). In addition, the Group had also breached a third-party loan covenant by failing to maintain a cash balance position of US$2,000,000 at all times. As a result of the covenant breach, a loan of US$1,363,000 can be called for repayment at any time upon notification by the third-party lenders. As of the date of this financial statements, the Group did not receive any notification from the third-party lenders for any loan repayment. Subsequent to year-end, the Group has received an indication from the third-party lenders that repayment of US$500,000 of the loan balance will be deferred to at least July 2021.

Management acknowledges that uncertainty remains over the ability of the Group to meet its funding requirements and to refinance or repay its suppliers as and when they fall due. The forecasted cash flows were prepared based on reasonable assumptions on financing, growth, disposal of assets and reorganisation plans that were ongoing within the Group to drive operational efficiency. The cashflows also take into consideration potential fund-raising exercises and the ability to defer payment for certain expenses.

On 28 May 2020, the Group has entered into an agreement with a third-party, Emerald Apex Pte. Ltd. ("Emerald") for a loan of US$500,000. The loan is subjected to an interest rate of 8% per annum, repayable within 6 months from the disbursement date. However, the loan and accrued interest shall automatically mature and becomes immediately repayable upon completion of the disposal of the Chocolate Touch asset to G Vascular Private Limited ("G Vascular").

As at 30 June 2020, the Group has an available cash balance of US$583,000. The management monitors the cash flows on a weekly basis and believes that the Company will be able to raise funds from various parties when required.

On 13 July 2020, the Company announced that it is in the process of disposing its drug coated PTA balloon catheter product line, Chocolate Touch® ("Disposal") to G Vascular for a consideration of *up to $20,000,000, which includes a closing payment of US$3,900,000 that is payable upon completion of the Disposal and the remaining contingent consideration up to US$16,100,000 will be received from G Vascular from their further use of Chocolate Touch®. In addition, the Company will also receive additional proceeds from G Vascular if the Chocolate Touch® product line is subsequent sold to third parties above a certain selling price. Further, as part of the disposal, G Vascular will assume from the Group the US$500,000 loan from Emerald above.*

Based on the forecasted cash flows, management has reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. If for any unforeseen reason the Group is unable to continue as a going concern, it could have an impact on the Group's ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at amounts stated in the consolidated financial statements.

Note 6 of the Annual Report Financial Statements

Intangible assets

	Developed technology US$'000	*Licensed royalties US$'000*	*Intellectual property US$'000*	*Developed technology in progress US$'000*	*Software development in progress US$'000*	*Total US$'000*
Group						
Cost						
At 1 January 2018	*9,790*	*172*	*372*	*5,518*	*280*	*16,132*
Disposals	*(5,808)*	*–*	*–*	*–*	*(280)*	*(6,088)*
At 31 December 2018 and 31 December 2019	*3,982*	*172*	*372*	*5,518*	*–*	*10,044*
Accumulated amortisation						
At 1 January 2018	*4,095*	*90*	*332*	*–*	*–*	*4,517*
Amortisation for the year	*403*	*11*	*–*	*–*	*–*	*414*
Disposals	*(3,450)*	*–*	*–*	*–*	*–*	*(3,450)*
Effects of movements in exchange rates	*18*	*–*	*–*	*–*	*–*	*18*
At 31 December 2018	*1,066*	*101*	*332*	*–*	*–*	*1,499*
Amortisation for the year	*244*	*11*	*–*	*–*	*–*	*255*
Effects of movements in exchange rates	*1*	*–*	*–*	*–*	*–*	*1*
At 31 December 2019	*1,311*	*112*	*332*	*–*	*–*	*1,755*
Carrying amounts						
At 1 January 2018	*5,695*	*82*	*40*	*5,518*	*280*	*11,615*
At 31 December 2018	*2,916*	*71*	*40*	*5,518*	*–*	*8,545*
At 31 December 2019	*2,671*	*60*	*40*	*5,518*	*–*	*8,289*

Company	***Intellectual property US$'000***
Cost	
At 1 January 2018, 31 December 2018 and 31 December 2019	*40*
Accumulated amortisation	
At 1 January 2018, 31 December 2018 and 31 December 2019	*–*
Carrying amounts	
At 1 January 2018, 31 December 2018 and 31 December 2019	*40*

Amortisation

The amortisation of intangible assets is included in 'cost of sales' within the consolidated statement of comprehensive income.

Source of estimation uncertainty

The Group makes judgements about the recoverability of finite-lived intangible assets whenever events or changes in circumstances indicate that impairment may exist. The Group performs an annual impairment assessment for intangible assets, or more frequently if indicators of potential impairment exist, to determine whether it is more likely than not that the carrying value of the assets may not be recoverable.

At the reporting date, the Group categorised its intangibles into 3 cash-generating units, as follows, on the basis that the underlying intangibles are capable of generating independent cashflows.

In the previous year, recoverable amount was determined based on the value-in-use method. If an individual asset is determined to be impaired, the amount of any impairment is measured as the difference between the carrying value and the recoverable amount of the impaired asset.

a) Recoverable amount of the Chocolate Touch® product line

Recoverability of the intangible assets relating to the Chocolate Touch® product line amounting US$6,465,000 is measured by comparing the carrying amount of the asset at reporting date to the recoverable amount which is determined at reporting date to be FVLCD given the circumstances as explained in Note 2. The FLVCD is determined based on the willing buyer and willing seller basis as described in Note 2.

Other than the closing payment of US$3,900,000, the remaining contingent consideration up to US$16,100,000 will be received from G Vascular from their further use of Chocolate Touch®. The assumptions made in the determination of the contingent consideration is complex and subjective. It is dependent on the amount and timing of the cashflows receivable from G Vascular. If the Group management made different estimates of the cashflows, different conclusions regarding the impairment might be reached.

The key assumptions used in estimation of the contingent consideration included the share of contingent proceeds from G Vascular over 7 years commencing 2022 and applying the discount rate of 12%. Further consideration from sale by G Vascular to third parties has not been considered as it is not readily measurable.

As at 31 December 2019, no impairment loss on intangible asset relating to Chocolate Touch® product line has been noted.

b) Recoverable amount of the Chocolate Heart® product line

Recoverability of the intangible assets relating to the Chocolate Heart® product line amounting US$1,424,000 is measured by comparing the carrying amount of the asset to the recoverable amount which is determined at reporting date to be based on the value-in-use. The assumptions and estimates used to determine the future values and remaining useful lives of the intangibles are complex and subjective. They can be affected by various factors amongst others, such as growth rate, royalty rate and discount rate, including external factors such as industry and economic trends, and internal factors such as changes in the Group's business strategy and forecasts. In particular, on the Chocolate Heart® product line, the Group has an existing agreement with Teleflex Life Sciences Unlimited Company ("Teleflex"), as part of the previous sale of the non-drug coated intangible asset, which gave Teleflex the right to acquire the Chocolate Heart® intangible assets when completely developed with the Group receiving a share of royalties derived by Teleflex.

The key assumptions used in estimating the value-in-use at the reporting date are set out below:

	2019
Useful life	*15 years*
Royalty rate	*5%*
Tax rate	*17%*
Discount rate	*12%*
Royalty commencement	*2026*
Growth rate	*5% to 125%*

As at 31 December 2019, no impairment loss on intangible assets has been noted.

c) Recoverable amount of the other intangible assets mainly representing Silk product line

Recoverability of the intangible assets relating to the Silk product line is measured by comparing the carrying amount of the asset to the recoverable amount which is determined at reporting date to be based on the value-in-use method. The assumptions and estimates used to determine the future values and remaining useful lives of the intangibles are complex and subjective. They can be affected by various factors amongst others, such as growth rate, royalty rate and discount rate, including external factors such as industry and economic trends, and internal factors such as changes in the Group's business strategy and forecasts. If the Group management made different estimates of the future cashflows, different conclusions regarding the impairment might be reached.

The key assumptions used in estimating the value-in-use at the reporting date are set out below:

	2019
Useful life	*15 years*
Royalty rate	*3%*
Tax rate	*17%*
Discount rate	*12%*
Royalty commencement	*2023*
Growth rate	*5% to 15%*

As at 31 December 2019, no impairment loss on intangible assets has been noted.

Notwithstanding the above, the Board is of the opinion that the Group will continue as a going concern for, *inter alia*, the following reasons:

1. The management has critically assessed the cash flow forecasts of the Group for the next twelve months and concluded that there will be sufficient cash flows and resources to allow the Group to continue its operations and meet its obligations for the foreseeable future;

2. On 13 July 2020, the Company announced that it had entered into a non-binding term sheet on 5 June 2020 with Genesis MedTech International Private Limited ("**Genesis MedTech**"), pursuant to which an affiliate of the Genesis MedTech, G Vascular Private Limited ("**G Vascular**") will be acquiring the Group's drug coated Chocolate PTA balloon catheter product line (the "**Proposed Disposal**"), pending approval from shareholders at the extraordinary general meeting to be held on 28 July 2020. Upon completion of the Proposed Disposal, the Group will be receiving an upfront payment of US$3.9 million. The Company is working to complete the Proposed Disposal by 31 August 2020;

3. The Group continues to generate income from the product and supply agreement with Teleflex, Inc. until at least December 2020 and transition services arrangement with G Vascular for at least one year from the closing date of the Proposed Disposal;

4. The Group have been in continuous discussions with the Group's third-party lenders in relation to the settlement of the existing loans as well as a potential extension for a portion of the existing loan with one of the third-party lenders; and

5. The Group has received a US$0.5 million short-term bridging loan from Emerald Apex Pte. Ltd., which will be assumed by G Vascular Private Limited upon completion of the Proposed Disposal.

The Board is in the opinion that (i) the Group has sufficient financial resources to fulfil its liabilities as and when they fall due; and (ii) confirmed that all material disclosures have been provided for trading of the Company's shares to continue in an orderly manner.

Shareholders of the Company are advised to read the Annual Report Financial Statements, which will be available on SGXNet and the Company's corporate website in due course.

By Order of the Board
QT VASCULAR LTD.

Eitan Konstantino
Chief Executive Officer
16 July 2020

This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "**Sponsor**") in accordance with Rules 226(2)(b) and 753(2) of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") Listing Manual Section B: Rules of Catalist.

This announcement has not been examined or approved by the SGX-ST. The SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

The contact person for the Sponsor is Ms Gillian Goh, Director, Head of Continuing Sponsorship (Mailing Address: 16 Collyer Quay, #10-00 Income at Raffles, Singapore 049318 and E-mail: sponsorship@ppcf.com.sg).