OVERVIEW

We are a medical operation service provider in China offering a full suite of diagnostic testing services for medical institutions with a market share of 3.7% in China's medical operation service market in terms of revenue in 2020. Medical operation services primarily relate to diagnostic testing services provided to medical institutions which can be divided into diagnostic outsourcing services and diagnostic testing services for medical institution alliances (醫聯體). We provide such diagnostic testing services to medical institutions in our six independent clinical laboratories ("ICL") and on-site diagnostic centers in medical institutions and charge them diagnostic service fees based on the types and quantities of tests performed. According to Frost & Sullivan, China' medical operation service market is expected to grow from RMB30,694.9 million in 2020 to RMB47,946.1 million in 2025 at a CAGR of 9.3%. To a lesser extent, we also provide diagnostic testing services to non-medical institutions in China via our outpatient clinic.

Currently, diagnostic tests are widely applied in medical treatments as the test results can help identify an individual's medical issues and therefore form the basis for doctors to determine the most suitable treatment plan. Starting from 2008, we provide standardized diagnostic outsourcing services for medical institutions by performing diagnostic tests and conducting results analysis. Under this model, medical institutions send test samples to our ICLs for diagnostic testing and issuance of testing reports and pay us diagnostic service fees based on the types and quantities of tests performed at our ICLs. Leveraging our six ICLs in China, we have gradually grown to become a platform with a growing menu of over 2,000 tests and over 50 million diagnostic tests performed in 2021, accounting for a market share of 3.0% in China's diagnostic outsourcing service market in terms of revenue in 2020, according to Frost & Sullivan.

In the past decade, in response to certain policies promulgated by the PRC governments to promote and encourage medical institution alliances, many medical institutions formed alliances to improve their overall diagnostic testing capacities and capabilities. They started to establish diagnostic centers at their sites, especially at those lead hospitals. According to Frost & Sullivan, the widely used term "medical institution alliance" refers to regional healthcare system consisting of primary, secondary and tertiary medical institutions, under which medical resources, especially diagnostic capacities, can be shared efficiently, aiming to improve the service quality of primary medical institutions, promote the optimal allocation of medical resources, allocate patients to the appropriate hospitals depending on their medical conditions, and balance the uneven distribution of medical resources and diagnosis demands in China. Normally, there will be one lead hospital, usually being a Class III or Class II hospital, that will take lead of the operation and management of the medical institution alliance and its on-site diagnostic center usually being established at the lead hospital. Through the on-site diagnostic center, all the member hospitals can benefit from the standardized and professional diagnostic services by delivering test samples to the corresponding lead hospital. Driven by this, the cumulative number of on-site diagnostic centers in China increased from 396 as of 2016 to 916 as of 2020 at a CAGR of 23.3%, according to Frost & Sullivan. Through this model, medical institutions within the same medical institution alliance do not need to deliver test samples to

different outsourced ICLs and may perform diagnostic testing on-site at the corresponding diagnostic center. Further, member hospitals may also enjoy the service of the diagnostic center by sending test samples to the lead hospital and enjoy the same diagnostic service of the lead hospital without separately engaging ICLs. Observing these emerging medical needs, other than diagnostic testing services, we also provide technical supports such as assistance in daily operations, testing equipment and on-site technicians to lead hospitals for establishing and operating on-site diagnostic centers to facilitate the on-site testing services, coordination between lead and member hospitals, and etc. We started to provide diagnostic testing services for medical institution alliances at such on-site diagnostic centers in different medical specialties such as pathology, infectious disease and genetic disease in 2013. In return, we charge them diagnostic service fees based on the types and quantities of tests performed. Not only are the diagnostic tests conducted at these on-site diagnostic centers, but such collaboration also creates opportunities for our nearby ICLs to provide other diagnostic testing services for the member hospitals within the alliances if the centers are not capable of providing testing services, as per the service and collaboration agreements. As of December 31, 2018, 2019, 2020 and 2021 and the Latest Practicable Date, we had assisted in establishing and operating 79, 132, 199, 275 and 322 on-site diagnostic centers. We are developing and expanding our businesses and we served approximately 1.0% of all the medical institution alliances during the Track Record Period and up to the Latest Practicable Date. In 2020, we had a market share of 12.5% in China's diagnostic testing services for medical institution alliances market in terms of revenue, according to Frost & Sullivan.

We believe diagnostic expertise and standardized testing capabilities are crucial to our success. We are constantly adopting new technologies for testing, encompassing all major clinical laboratory technology platforms, including immunological detection, mass spectrometry, PCR, high-throughput sequencing, liquid chip, ultra-micro pathological morphology and digital pathology remote diagnosis. We are also committed to bringing international standards and guidelines to medical institutions in China. We are the only execution partner of CLSI's healthcare business with the joint objectives to improve the overall performance of clinical laboratories in China. We are also the only branch office of CLSI in China which enable us to enhance our diagnostic capability in accordance with international standards and demonstrating the recognition of our diagnostic testing capabilities.

We believe that the success of our business model is also evidenced in our broad and loyal network of medical institution customers. During the Track Record Period and up to the Latest Practicable Date, our network covered over 3,600 customers primarily consisting of hospitals and other medical institutions and served over 300 medical institution alliances. Our customers also consist of certain non-medical institutions, including financial institutions and insurance companies. By offering standardized and high caliber services to and closely collaborating with customers, we have enjoyed strong customer loyalty and stickiness, having worked with many of our major customers for over five years.

As a medical operation service provider in China, we have been able to achieve sustainable growth through our diagnostic expertise and strong standardization capabilities, a broad and loyal customer base, and an experienced management team. We believe these competitive strengths are difficult to replicate and we are well positioned to capture the significant growth potential of China's medical operation service market.

COMPETITIVE STRENGTHS

A medical operation service provider in China, strategically focused on diagnostic testing to capture significant market opportunities

We are a medical operation service provider in China providing professional and standardized diagnostic testing services through either ICLs or on-site diagnostic centers, which cover major medical specialties of pathology, infectious diseases and genetic diseases. In 2020, we had a market share of 3.7% in China's medical operation service market in terms of revenue, according to Frost & Sullivan.

Over the past decade, the PRC government has made significant efforts to reform the healthcare industry in China to address the uneven distribution of medical resources. The PRC government has endeavored to improve the technical capabilities and service quality of smaller and regional hospitals and other medical institutions to support an HDTS where patients are directed to the appropriate hospital or clinic based on their medical condition, instead of patients being concentrated in a handful of Class III hospitals in China. Under HDTS, first diagnosis shall be primarily performed at primary medical institutions, which need to have sufficient diagnostic capacities and capabilities so that patients can be referred to the most suitable medical institution for treatment. As such, the implementation of HDTS presents significant demands for medical operation services to enhance the diagnostic capacities and/or capabilities of medical institutions. We were one of the first movers in providing medical operation services for medical institutions in China to assist them under the backdrop of such reforms, according to Frost & Sullivan. We have participated in key projects, such as collaborating with CLSI to improve the capabilities, quality and sustainability of clinical laboratories in China and assisting in the development of medical institution alliances, regional associations of hospitals, community healthcare centers and clinics and other medical institutions aimed at optimizing the allocation of medical resources and building the health-focused HDTS in China. Driven by the healthcare reforms and the intensified need for diagnostic testing services of medical institutions, the PRC market for medical operation services is expected to grow from RMB30,694.9 million in 2020 to RMB47,946.1 million in 2025 at a CAGR of 9.3%, according to Frost & Sullivan.

We have strategically laid a foundation for our business through diagnostic testing, which is often an essential prerequisite to direct patients to the appropriate hospitals and other medical institutions. We aim to expand our portfolio of medical operation services based on the relationship developed with medical institutions through our diagnostic testing services. With over 13 years of ICL operations experience, we are well-positioned in helping medical institutions, especially Class II and smaller institutions, enhance their diagnostic capacities and

quality by providing diagnostic testing services to them or assisting in building on-site diagnostic centers. As a result, we have become a platform of medical operation services in China, covering major medical specialties of pathology, infectious diseases and genetic diseases with a growing menu of over 2,000 tests, which covered over 70% of major diagnostic testing categories in the medical operation service market in 2020, according to Frost & Sullivan. We have developed a deep and broad network of over 200 on-site diagnostic centers. We conduct an aggregate of over 50 million diagnostic tests in 2021 through our ICLs and on-site diagnostic centers. As we expand our business in medical operation services, we believe that our first-mover position in providing diagnostic testing services for medical institution alliances will enable us to capture significant market opportunities for future growth.

An expertise-driven platform in China, empowering hospitals to build up international-standard testing systems

We are an expertise-driven platform in China with the ability to empower hospitals to build up international-standard testing systems by offering a high level of expertise in diagnostic technologies, standards and operations. Leveraging our six ICLs, we have successfully built an expertise-driven platform with a testing menu of over 2,000 tests, which we believe forms a strategic advantage that sets us apart from competitors. We believe our diagnostic expertise and standardized testing capabilities are crucial to our historical success.

Diagnostic expertise. Since our inception in 2008, we have focused on applying the latest technologies in the medical operation services industry and developing a full suite of diagnostic capabilities to provide omni-scenario and customized solutions for our customers.

- *Technology expertise*. We are constantly adopting new technologies for diagnostic testing. Our ICLs are equipped with a full suite of diagnostic capabilities, encompassing all major clinical laboratory technology platforms, including immunological detection, mass spectrometry, PCR, high-throughput sequencing, liquid chip, ultra-micro pathological morphology and digital pathology remote diagnosis. In response to the COVID-19 pandemic, we have rapidly adopted COVID-19 diagnostic techniques at our Guangzhou and other clinical laboratories, which had an aggregate daily testing capacity of over 490,000 tubes, and had tested over 165 million people as of the Latest Practicable Date.

- *Industry recognition*. We have gained widespread industry recognition for our diagnostic testing services, reflecting our market position and competitiveness. Our Guangzhou laboratory owns one of the few organizations in China recognized as a *National Genetic Testing Technology Application Demonstration Center* (國家基因檢測技術應用示範中心) by the NDRC. Our Guangzhou and Shanghai laboratories had passed the National Tumor Somatic Mutation High-sequencing Bioinformatics Detection Quality Evaluation (全國腫瘤體細胞突變高通量測序檢測生物信息學分析室間質量評價統計結果) organized by the National Center for Clinical Laboratories (國家衛生健康委臨床檢驗中心) in August 2020. Our Guangzhou laboratory was also among the first batch of laboratories to be appointed as

high-throughput sequencing pilot centers for pre-natal and pathological testing and diagnosis projects by the PRC National Health Commission. Our Guangzhou laboratory was named as a biopharmaceutical engineering technology research center (醫藥生物工程技術研究中心) by the PRC Ministry of Health and a joint engineering laboratory of the NDRC. Moreover, we have one of the pilot centers in China for the implementation of the new *Pharmaceutical Cold Chain Logistics Industry Standard* (藥品冷鏈物流運作規範).

- *Strategic partnerships*. We believe it is crucial to stay at the forefront of technological advancements and academic research. We collaborate with a number of renowned healthcare organizations and academic institutions in China and globally. For example, we collaborated with Fudan University (復旦大學) to implement an advanced healthcare reform initiative in health promotion and diagnostic testing. Under this five-year project, we worked with Fudan University to explore a feasible mechanism for developing collaborative services and promoting hierarchical diagnosis services, promote the industrialization of scientific research results and jointly train highly qualified personnel. Under the collaboration, Fudan University and us jointly organized training programs for medical institutions. In addition, we are collaborating with the American Telemedicine Association ("**ATA**") with respect to the application of advanced telemedical technologies in China. Through this collaboration, ATA and us agreed to jointly promote advanced telemedical technologies, products and methods in China and design telemedicine projects in China to establish demonstration and promotion bases of telemedicine research and application.

Strong standardization capabilities. Through empowering hospitals with high caliber standardized testing capabilities, we are able to not only drive industry standardization, but also become the collaborator of choice for medical institutions, which we believe can cement our position as a key participant in the diagnostic testing and medical operation services value chain in China. Our capabilities are demonstrated by the following:

- *International standards*. By helping hospitals establish international quality standards in diagnostic testing, we are able to achieve the rapid and scalable growth of our business. We are the only execution partner of CLSI's healthcare business and the only branch office of CLSI in China, which demonstrates our international standards and recognition. CLSI is a globally recognized not-for-profit standards development organization, whose standards are recognized by laboratories, accreditors and government agencies globally to improve medical laboratory testing. We are also the first and only company in China to participate in promoting the standards of the *PRC Grassroots Medical Laboratory Quality and Capability Standards Handbook* with CLSI, in order to advance the quality of grassroots medical care and promote the adoption of international standards, and in turn increase the overall recognition and capability of grassroots medical institutions in China to achieve optimal patient and resource allocation.

- *Industry accreditations.* We have obtained accreditation from the American Society for Clinical Pathology, the leading organization for pathology globally according to Frost & Sullivan, and our operations meet ISO quality standards, reflecting the international-level quality and global recognition of our diagnostic results. According to Frost & Sullivan, we have the largest number of ICLs in China that hold both ISO15189 and CAP certifications. Our industry accreditations reflect our high level of quality and technical capability.

Committed to bringing international standards and guidelines to medical institutions in China, we started our business with a foundation in diagnostic testing and have since expanded our portfolio of medical operation services, which helps not only to establish a competitive barrier but also form a close and equal partnership with hospitals, and we believe has made us an indispensable part of the medical institution alliances we serve.

Diagnostic testing services for medical institution alliances enabling scalable and rapid business growth

We provide diagnostic testing services for medical institution alliances by assisting in establishment and operation of their on-site diagnostic centers in China, which we believe can facilitate better provision of our services with a deeper understanding of their demands and in turn become reliable sources of revenue in the future. We believe that this business model enables us to address the needs of key stakeholders in the healthcare system, from medical institutions at all levels in China to reallocate medical resources with the potential to improve their efficiency by conducting more diagnostic tests at these on-site diagnostic centers and focusing medical resources on appropriate patients, to the government in implementing healthcare reforms, and to patients that seek better quality and accessible healthcare services. Our ability to address these needs and integrate our services with the operation of the medical institution alliances instead of a single hospital will enhance the satisfaction of member hospitals and other medical institutions that we work with, which in turn, increases customer loyalty and enables us to develop a sustainable and growing business network.

Leveraging our standardized diagnostic services, we are able to apply international quality and technical standards in areas of clinical laboratory testing and telepathology to the on-site diagnostic centers. Our services are supported by six operating modules, namely, overall business planning, quality control, hierarchical diagnosis and treatment, marketing, smart logistics and supply chain. Supported by these functions, we are able to provide modularized diagnostic testing services at on-site diagnostic centers to meet each hospital's specific needs, while maintaining efficient and standardized day-to-day operation. Through standardized processes and workflows offered by our operating platforms, our customers can increase their diagnostic capacities, operational management and quality control, enabling them to scale up their operations and achieve standardization, addressing their needs.

We believe that the success of our business model is evidenced in the fast growth of diagnostic centers that we assisted in building. We have achieved scalability with the number of such diagnostic centers increasing from 79 as of year-end 2018 to 275 as of year-end 2021,

at a CAGR of 51.6%. We are gradually expanding our presence in smaller cities and regions to cover more grassroot medical institutions, and have established representative offices with specialized personnel to rapidly respond to customer needs in 11 cities nationwide, which we believe will better serve these areas.

Loyal customer network with broad nationwide coverage

Through our self-operated ICLs and on-site diagnostic centers, we are able to provide services to and cover a broad network of medical institution customers in China. As of December 31, 2021, the hospitals we collaborated with were located across 31 provinces and municipalities in China, with a majority of such hospitals located in Guangdong province, where our headquarters are located. As of the Latest Practicable Date, we had also assisted in establishing and operating 322 on-site diagnostic centers.

We are also actively growing our network in the speciality areas of infectious diseases, tumors, genetics and reproduction. As our COVID-19 testing business grows, we aim to rapidly scale up on-site diagnostic centers in light of the significant market demand and build the largest infectious disease diagnostic network in China.

By offering standardized and high caliber services to and closely collaborating with our customers, we have enjoyed strong customer loyalty and stickiness. As of the Latest Practicable Date, over 60% of our major diagnostic outsourcing service customers have been doing business with us for five years or more. We generally sign three to five year contracts for the on-site diagnostic centers, reflecting long-term commitment and our solid relationship with our customers. Our customers' satisfaction is also reflected in the growing share of customers' wallet that we have been able to achieve, successfully cross-selling our services across disease areas. Through our Yunkang intelligent technology systems, which are specifically designed for the operations of on-site diagnostic centers, we are able to track the active users of our services in real time and provide timely services, especially by connecting directly with our customers' testing equipment, which we believe has also enhanced customer loyalty. Through our broad and highly loyal customer base, we believe we are able to achieve strong synergies across medical specialties, lower our operating cost and realize economies of scale, laying a solid foundation for our rapid and profitable growth going forward.

Experienced senior management and high caliber team

We are led by a senior management team with some of them having over 20 years of experience in the medical operation services industry. With a deep understanding of market demands, opportunities, trends and key technologies, our senior management team determines our strategic direction and leads our business growth. Our five-member senior management team comprises Mr. Zhang Yong, our chairman of the Board and chief executive officer, Mr. Wang Xubo, our executive vice president, Mr. Lin Yingjia, our chief financial officer, Mr. Hu Shanghua and Mr. Wang Tieding, each a vice president. These dedicated industry veterans have complementary skill sets in management, finance, business operations, human resources and administration to successfully manage and operate our business.

We believe that our technical personnel are the foundation of our success. To support our rapid development, we focus on continuously training and cultivating home grown professional talents. In 2016, we cooperated with Sun Yat-sen University and established Yunkang Medical and Health Management College program ("**Yunkang College**") to provide training on clinical and pathological diagnostics. At Yunkang College, our employees will provide practical courses to its students from time to time and we may offer internship or full-time job opportunities to its students and graduates. We believe this program offers us the precious opportunities to attract young talents from one of the leading universities in China and also enhance our brand awareness. In 2020, 20% of Yunkang College's first graduating class joined us. We expect more graduates from Yunkang College to join us upon graduation to improve our talent reserve.

BUSINESS STRATEGIES

We strive to achieve our long-term goal of helping optimize medical resources allocation and accelerate industry transformation. In particular, we intend to implement the following business strategies:

Continue to expand and deepen our medical institution alliance network

We plan to ramp up efforts to expand our diagnostic testing services for medical institution alliances business. As of the Latest Practicable Date, there were 38 ongoing projects on on-site diagnostic centers with hospitals, which had not yet commenced operation as the relevant hospitals were undergoing internal approval procedures as of the same date. Normally, it takes two to three months for these medical institutions to complete their internal approval procedures. For certain hospitals that do not currently have diagnostic capacities, we intend to help them improve laboratories and help them manage and operate such laboratories. Over the next few years, we plan to primarily focus on pathology, genetic and infectious disease laboratories for medical institution alliances and further improve their precision medicine capability.

The initial investment amount for setting up each pathology diagnostic center and each infectious disease diagnostic center is expected to be approximately RMB600,000 and the initial investment amount for setting up each genetic disease diagnostic center is expected to be RMB2.0 million, with 95% of which will be used for equipment procurement and 5% for staff training and marketing related activities, which will be borne by us. Based on our previous experience, we currently expect that each of the on-site diagnostic centers will achieve investment payback within 18 months of commencement of operations, in anticipation of the growing demand for diagnostic testing services for medical institution alliances in China. The projected investment payback period is made based on the assumptions that (i) the revenue for the first year generated from each medical institution alliance corresponding to an on-site diagnostic center will generally be in line with that during 2021; (ii) the revenue generated from medical institution alliances corresponding to these diagnostic centers will grow by 15% to 20% annually, based on our observations in newly-established on-site diagnostic centers in 2021 and (iii) the cost of revenue will account for approximately 50% to 55% of the revenue

over the next five years considering (a) our gross profit margin for diagnostic testing services for medical institution alliances in 2019, 2020 and 2021 (being 49.3%, 51.9% and 52.8%) and (b) the ramp-up period for these newly-established on-site diagnostic centers, which may result in a slightly lower gross profit margin as compared to that in the last three years.

We plan to establish more sales and customer service representative offices to serve our customers. We believe that increasing the coverage of our representative office network will enable our sales and marketing and after-sales customer service personnel to more closely interact with customers and develop stronger and deeper business relationships. We intend to conduct more in-person visits and create more frequent feedback and communication opportunities with customers. Through closer and more frequent communication, we hope to better understand customer needs and design and provide solutions to meet those needs, and in turn, maintain our market position.

We plan to invest approximately RMB800 million for this business strategy, which will be funded by a combination of [**REDACTED**] from the [**REDACTED**], bank borrowings and our own funds. For details on the [**REDACTED**] to be allocated for this purpose, see "Future Plans and Use of [**REDACTED**]."

Continue to upgrade and enhance our operational capabilities

We believe continuous upgrade and enhancement of our operational capabilities as a platform of medical operation services is critical for us to improve customer experience and plan to focus on the following areas:

- *Enhance local service capabilities*. We plan to strategically develop small-scale self-operated ICLs in select regions and areas in China near our major customers or based on market needs to better provide timely services for customers. We believe this will enable us to react more readily to customer demand and enhance customer satisfaction with faster turnaround.

  As compared to full-scale ICLs, these small-scale self-operated ICLs generally involve less initial investment amount and shorter investment payback period. Based on our experience, a full-scale ICL would cost approximately RMB30 million to RMB50 million based on the assumption that approximately 60% to 70% will be used for procurement of medical equipment and devices and technician recruitment, while the remaining will be used for facility and infrastructure preparation. To be in line with our previous experience, the initial investment amount for setting up a small-scale self-operated ICL will generally be approximately RMB14 million to RMB20 million on the basis that approximately 50% to 60% of the amount will be used for procurement of medical equipment and devices and the remaining will be used for leasing, infrastructure and facility preparation and technician recruitment.

Based on our previous experience, we currently expect the small-scale self-operated ICL will achieve investment payback within three years. Such projected investment payback period is made based on the following assumptions: (i) the first year annual revenue for each small-scale self-operated ICL will be approximately RMB20 million and will continue to grow by 10% annually; (ii) cost of revenue accounted for approximately 70% of the revenue for the first year and will gradually decrease to below 65% and maintain relatively stable within the next five years; and (iii) staff costs and logistics costs will continue to grow by 5% annually. For a full-scale ICL, based on our previous experience we currently expect that it will achieve investment payback within five to seven years, assuming that (i) the first year annual revenue for each full-scale ICL will be approximately RMB35 million to RMB40 million and will continue to grow by 10% to 20% annually; (ii) cost of revenue accounted for over 90% of the revenue for the first two years and maintained relatively stable at 70% to 80% over the next five years; and (iii) staff costs and logistics costs will continue to grow by 5% to 10% annually.

- *Digitalize diagnostic testing*. We aim to digitalize our testing services, including telepathology and intelligent imaging reading, among others, with the goal of improving our platform efficiencies and enhancing the ability to allocate medical resources, such as pathologists. In addition, we also plan to develop technical and operating systems to support our operations, such as an intelligent imaging reading system and an information technology system to connect medical institution alliances in China.

- *Pursue potential acquisition and investment opportunities*. In order to further enhance our operational capabilities, we may consider to acquire or invest in companies that have synergistic businesses with ours, such as upstream companies engaged in advanced diagnostic techniques, molecular biology, biotechnology and and their clinical applications. As of the Latest Practicable Date, we did not have any potential acquisition or investment targets.

- *Upgrade our headquarters*. To meet the needs of our growing business, we plan to upgrade our headquarters in Guangzhou. We own one parcel of land with an area of approximately 6,251 sq.m. We have entered into a collaboration agreement with a third-party developer for the construction and development of the new headquarters. Pursuant to this agreement, the developer shall construct a thirteen-floor building by October 30, 2022. The total consideration payable to the developer is approximately RMB284.9 million (excluding tax). The construction shall fulfill the applicable national quality standards. Upon completion, we will appoint a qualified responsible party to conduct acceptance examination. If any issues are identified during such examination, the developer shall be responsible for rectification for our follow-up examination. We plan to fund our new headquarters using our operating cash inflows and bank loans. To date, we have obtained the construction permit and initiated the preliminary construction. In addition to being our headquarters, we may also plan to use the property for ICLs and other medical operation services, subject to obtaining

relevant governmental approvals. For details on the contractual arrangement with respect to our new headquarters, see "Contractual Arrangement—Background —Control of Yunkang Lingnan Through the Contractual Arrangement."

Through these measures, we believe we can continue to increase our market share in the future. In particular, even if the market leader has already captured a significant market share, several regions, in particular lower-tiered cities in these regions, China still lack penetration of qualified ICLs or on-site diagnostic centers, for example, Central China. Further, although several regions, such as Southern China and Eastern China in these regions have qualified ICLs or on-site diagnostic centers, the medical operation service market is significantly under-served in light of the large number of medical institutions in these regions . As such, we plan to deepen our penetration in these areas where the current market leader does not have sufficient presence, and gradually expand to other areas in China to capture a larger market share in the future.

We plan to invest approximately RMB1 billion to RMB1.26 billion for this business strategy. Except for the headquarters upgrade, which will be funded by our own funds and bank borrowings, the remaining amount will be funded by the net [**REDACTED**] from the [**REDACTED**]. For details on the net [**REDACTED**] to be allocated for this purpose, see "Future Plans and Use of [**REDACTED**]."

Expand our portfolio of diagnostic capabilities

We plan to expand our portfolio of diagnostic capabilities, in particular, for tumors, genetic diseases, infectious diseases and pharmacogenetics. With respect to these areas, we plan to continue to enhance our diagnostic testing technologies, upgrade our equipment and recruit more personnel as appropriate to support our expansion. As we expand our diagnostic capabilities, we plan to market our services to more non-medical institution customers, such as corporations and government agencies, enhancing our ability to provide omni-scenario medical operation services for customers.

Through the continued expansion of our capabilities, we also endeavor to work with hospitals to provide precision medicine solutions to patients. Precision medicine aims to design patient-specific disease treatments and prevention methods that takes into account individual variability in genes, environment and lifestyle, which has the potential to shorten the treatment period and reduce post-treatment complications. In particular, targeted cancer therapy, an important area of precision medicine, is often guided by auxiliary diagnosis supported by independent lab testing. For example, the use of EGFR-TKIs, a type of targeted therapy for treating EGFR-positive non-small cell lung cancer, needs to be based on a positive EGFR mutation test. As cancer incidence in China continues to increase and targeted cancer therapies become more mainstream, the demand for ICL-based gene sequencing and auxiliary diagnosis services will also grow. Cancer incidence in China grew from 4.1 million in 2016 to 4.6 million in 2020, and is expected to continue to grow to 5.2 million in 2025, according to Frost & Sullivan. The NMPA has been continuously granting approval to new cancer drugs in recent years (e.g., 17 in 2018, 10 in 2019 and 16 in 2020), further driving the growth of China's cancer drug market and precision medicine market.

We believe that precision medicine will be a growing trend in the healthcare industry as more and more patients seek customized medical solutions. Diagnostic testing is crucial to enhance precision medicine as accurate diagnostic testing will enable physicians to understand the characteristics of the patients to customize their treatment plan. Leveraging our experience and market leadership in diagnostic testing, we intend to be a first mover in capturing this industry opportunity. As the first step in implementing this strategy, we plan to enhance our genetic and pathology testing capabilities for oncology patients, and to help physicians to design patient-specific treatment plans. To strategically evaluate market opportunities in this field, we plan to establish an academic panel to design our business strategy and plan. The academic panel will consist of experts with abundant clinical experience in precision medicine, oncology treatment and genetics, experts with extensive experience in the technology relating to genetic testing and technology experts in diagnostic testing equipment. These panel members will hold regular meetings with our management team to provide latest trends in medical practice, technology breakthroughs and clinical pain points that can be addressed with diagnostic testing. Our management team will provide them an overview of the latest updates of our business plan and our service package, enabling them to be familiar with our business and operations. They will review our business plan and service package from clinical point of view and provide valuable insights to our management team, enabling us to constantly optimize our business plan and upgrade our service package.

We plan to invest approximately RMB180 million to RMB250 million for this business strategy, which will be funded by a combination of [**REDACTED**] from the [**REDACTED**] and our own funds. For details on the [**REDACTED**] to be allocated for this purpose, see "Future Plans and Use of [**REDACTED**]."

Continue to attract and train our talent pool

We plan to continue to attract and train up talented and experienced personnel to support our expanding business. In particular we plan to focus on technical and medical personnel, as well as management personnel, who we believe are the key backbone of our business. We intend to create an employee promotion and advancement system with a grade structure and corresponding compensation scheme. We also may put in place incentive schemes to motivate and align the interests of our employees in the future. We will also implement training programs for different departments to enhance their professional and technical knowledge. We also plan to invest more in Yunkang College to attract and cultivate more talents. We plan to invest approximately RMB100 million to RMB120 million for this business strategy, which will be funded by a combination of net [**REDACTED**] from the [**REDACTED**] and our own funds. For details on the net [**REDACTED**] to be allocated for this purpose, see "Future Plans and Use of [**REDACTED**]."

OUR MISSION AND ROLE IN THE HEALTHCARE SYSTEM IN CHINA

A major problem in China's healthcare system is the uneven distribution of medical resources. According to Frost & Sullivan, China's medical resources are mostly concentrated in large Class III hospitals. Patients, regardless of the seriousness of their condition, prefer to seek medical care in these large hospitals, even though some of the patients can be treated in smaller, regional hospitals. In 2020, over 54% of outpatient visits in China were conducted in Class III hospitals, which only accounted for approximately 8% of the total number of hospitals in China, according to Frost & Sullivan. The uneven concentration of patients and medical resources puts a burden on the overall healthcare system in China.

In response to the uneven distribution of medical resources, the PRC government introduced the concept of medical institution alliances, which aims to optimize the allocation of medical resources. Medical institution alliances are regional associations of hospitals, which include Class I, II and III hospitals, community health clinics and other medical institutions (such as woman's and children's dispensaries, township health center and village clinics). Patients are directed to the appropriate member hospital, clinic or medical institution for treatment based on their medical condition. Class I and II hospitals and other medical institutions will primarily take on primary care and basic healthcare needs, while Class III hospitals will primarily handle complex medical cases and referral consultations from Class I and II hospitals and other medical institutions.

In order to direct patients to the appropriate hospitals and other medical institutions, hospitals have to build up their diagnostic testing practice to enhance their clinical and pathological diagnostic capability. However, diagnostic testing is a time- and cost-consuming process and it may not be efficient for hospitals to conduct these tests themselves. As such, there is significant market demand for ICLs that can provide standardized and modularized diagnostic testing services. Observing the tremendous opportunities, we have been providing diagnostic outsourcing services for medical institutions and to a lessor extent, non-medical institutions since our inception to meet their diagnostic needs arising during daily operations. In addition, in recent years with the support of favorable government policies, medical institutions have the opportunity to work with medical operation service providers to build up their diagnostic capacities within the medical institution alliances in a more efficient way as the test samples collected at the medical institutions do not need to be delivered to the ICLs for testing. Instead, the medical institutions can complete the testing at these on-site diagnostic centers. From 2013, we started to offer diagnostic testing services for medical institution alliances with the aim to provide an efficient solution for medical institutions and their medical institution alliances to build up on-site diagnostic capacities, ultimately to facilitate the operation of the medical institution alliances.

OUR SERVICES

Overview

Since our inception in 2008, we have been focusing on providing professional diagnostic testing services for medical institutions, and to a lesser extent, non-medical institutions through our six ICLs and an outpatient clinic to meet their diagnostic needs arising during daily operations. In the past decade of healthcare reforms and as medical institution alliances were introduced, where we realized the significant market need among medical institution alliances for our high quality medical operation services to enhance their diagnostic capacities, direct patients to the appropriate hospital or clinic and effectively reallocate medical resources. In order to address unmet needs and capture these market opportunities, we began to lay the foundation for our services by developing our diagnostic capabilities and standards, as well as growing the network of on-site diagnostic centers, with the purpose of expanding our portfolio of medical operation services. In particular, we have focused our resources on developing our capabilities in pathology tests, genetic disease diagnostic tests and infectious disease diagnostic tests.

Business Model

Building on our diagnostic expertise and our established healthcare services network, our service portfolio mainly includes the following:

- *Diagnostic outsourcing services.* We offer diagnostic outsourcing services to hospitals, other medical institutions and public institutions. Hospitals need to conduct diagnostic testing on patients' test samples, which, considering the high volume of patients' test samples overall for various test types, can be time- and cost-consuming. As for other medical institutions and public institutions, they do not have the required capabilities to conduct diagnostic testing themselves. For these aforementioned reasons, these institutions do not generally conduct diagnostic testing by themselves. In response to these demands from hospitals, other medical institutions and public institutions, we provide a wide range of diagnostic testing services, including nucleic acid testing, genetic testing and diagnostic testing involving NGS technologies.

- *Diagnostic testing services for medical institution alliances.* In order to conduct on-site diagnostic testing, we provide technical supports for the set-up and daily operation of the on-site diagnostic centers. Depending on the capacities and capabilities of the diagnostic centers, diagnostic testing is either conducted at these diagnostic centers or our nearby ICLs. The technical supports include (i) setting-up or upgrading diagnostic centers; (ii) establishment of standard operating procedures for diagnostic testings; (iii) diagnostic consultation and staff training; (iv) provision of equipment; (v) smart Internet of things; and (vi) logistics assistance. In return, we charge them diagnostic service fees based on the types and quantities of tests performed on the test samples at these diagnostic centers together with our nearby

ICLs if the centers are not capable of performing certain diagnostic tests. We normally enter into service and collaboration agreements with medical institutions, which set out not only the types of tests that need to be provided, but also the technical supports we would provide them. For each of the on-site diagnostic centers, we normally provide one to seven on-site technical staff(s) and the medical institution will also provide one to seven staff(s), and we normally provide major diagnostic testing equipment. Upon expiration of such agreement, if a medical institution decides not to renew such services, we will cease to provide technical supports, withdraw our on-site staff and require the medical institution to return all the equipment we provided. During the Track Record Period, we successfully renewed all but one of the service and collaboration agreements that has expired, as generally medical institutions prefer to engage third-party service providers for such services due to time and cost considerations.

- *Diagnostic testing services for non-medical institutions*. We offer diagnostic testing services for non-medical institutions (including financial institutions and insurance companies) which mainly include personalized diagnostic testing, medical report consultation services and hospital referral services. Through these services, we provide basic consultation based on the diagnostic testing report we issued and refer those patients to the suitable hospitals for future treatment that we consider appropriate. We primarily provide health management services offline where we conduct basic diagnostic testing and health checkup for individual customers at our outpatient clinic or locations requested by our customers.

The following table sets forth the breakdown of our revenue by customer type for the periods indicated.

	For the year ended December 31,							
	2018		2019		2020		2021	
	(RMB in thousands, except for percentages)							
Diagnostic outsourcing services								
– Infectious disease diagnostic tests	79,880	13.4%	93,052	13.7%	555,111	46.2%	732,058	43.1%
– COVID-19 tests	–	–	–	–	461,429	38.4	637,959	37.6
– Pathology tests	89,884	15.1	100,100	14.7	95,852	8.1	105,726	6.3
– Genetic disease diagnostic tests	187,758	31.4	179,825	26.6	126,236	10.5	101,697	6.0
– Routine diagnostic tests	91,756	15.4	90,128	13.3	80,534	6.7	84,793	5.0
Subtotal	449,278	75.3	463,105	68.3	857,733	71.5	1,024,274	60.4

	For the year ended December 31,							
	2018		2019		2020		2021	
	(RMB in thousands, except for percentages)							
Diagnostic testing services for medical institution alliances								
– Infectious disease diagnostic tests	13,061	2.2	28,501	4.2	104,709	8.7	388,874	22.9
– COVID-19 tests	–	–	–	–	64,467	5.4	327,623	19.3
– Pathology tests	25,628	4.3	47,379	7.0	75,941	6.3	101,827	6.0
– Genetic disease diagnostic tests	48,047	8.1	65,339	9.6	62,392	5.2	83,789	4.9
– Routine diagnostic tests	14,075	2.3	24,845	3.7	32,726	2.7	44,866	2.7
Subtotal	100,811	16.9	166,064	24.5	275,768	22.9	619,356	36.5
Diagnostic testing services for non-medical institutions								
– Non-COVID-19 tests	46,219	7.8	48,657	7.2	45,664	3.8	33,018	1.9
– COVID-19 tests	–	–	–	–	21,155	1.8	20,092	1.2
Subtotal	46,219	7.8	48,657	7.2	66,819	5.6	53,110	3.1
Total	596,308	100.0%	677,826	100.0%	1,200,320	100.0%	1,696,740	100.0%

The following table summarizes the number of diagnostic tests performed for each test type during the Track Record Period.

	For the year ended December 31,			
	2018	2019	2020	2021
	'000			
Diagnostic outsourcing services				
– Infectious disease diagnostic tests	1,363.5	1,411.4	7,659.1	32,987.9
– COVID-19 tests	–	–	6,202.0	31,466.3
– Pathology tests	1,353.5	1,267.1	1,135.5	1,166.8
– Genetic disease diagnostic tests	1,090.1	1,031.1	903.8	847.7
– Routine diagnostic tests	3,984.0	3,101.2	2,563.8	2,480.2
Subtotal	7,791.0	6,810.8	12,262.2	37,482.5

	For the year ended December 31,			
	2018	2019	2020	2021
			'000	
Diagnostic testing services for medical institution alliances				
– Infectious disease diagnostic tests	136.7	238.9	1,437.0	13,082.2
– *COVID-19 tests*	–	–	1,092.3	12,544.8
– Pathology tests	213.7	322.9	500.2	708.1
– Genetic disease diagnostic tests	216.0	327.5	359.2	472.5
– Routine diagnostic tests	210.6	384.6	542.3	870.1
Subtotal	777.0	1,273.9	2,838.7	15,132.9
Diagnostic testing services for non-medical institutions				
– *Non-COVID-19 tests*	242.9	166.7	160.4	119.0
– *COVID-19 tests*	–	–	158.2	461.0
Subtotal	242.9	166.7	318.5	580.0
Total	8,810.9	8,251.4	15,419.4	53,195.4

Starting from 2020, COVID-19 tests have accounted for a significant share of our revenue. The following table summarizes our revenue, gross profit and gross profit margin generated from COVID-19 tests and non-COVID-19 test during the Track Record Period.

	For the year ended December 31,											
	2018			2019			2020			2021		
	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin
	RMB in thousands, except for percentage											
COVID-19 tests	–	–	–	–	–	–	547,051	347,713	63.6%	985,674	559,969	56.8%
Non-COVID-19 tests	596,308	240,385	40.3%	677,826	299,194	44.1%	653,269	308,182	47.2%	711,066	339,168	47.7%
Total/overall	596,308	240,385	40.3%	677,826	299,194	44.1%	1,200,320	655,895	54.6%	1,696,740	899,137	53.0%

During the Track Record Period, the gross profit margin for COVID-19 tests was generally higher than that of non-COVID-19 tests, primarily because of the significant market demand due to the COVID-19 pandemic. Our gross profit margin for COVID-19 tests have decreased from 63.6% in 2020 to 56.8% in 2021, primarily because the prices of COVID-19 tests set by government pricing protocols were lowered as it became a routine test and we participated in the governmental COVID-19 full screening project in Guangdong province in mid-2021, resulting in a lower average selling price for the COVID-19 tests.

Our diagnostic testing portfolio primarily covers the following therapeutic areas.

- *Pathology tests.* Pathology tests primarily aim to discover and understand the nature of tumor. According to Frost & Sullivan, the number of new confirmed cancer cases in China increased from approximately 4.1 million in 2016 to approximately 4.6 million in 2020. Driven by factors including aging population and environmental factors, it is expected that there will be approximately 5.2 million confirmed cancer cases in 2025. Pathology tests are crucial for physicians to better understand the pathological condition of each patient, so that they can design the most suitable treatment plan.

- *Infectious disease diagnostic tests.* With the growing awareness of infectious diseases, we have gradually built up our service offerings for over 20 categories of infectious disease diagnostic tests, including hepatitis B virus, tuberculosis, human papillomavirus, EB virus, rabies virus and nucleic acid tests for respiratory pathogens (including COVID-19 virus), among others. In particular, COVID-19 testing has rapidly become a norm in daily life, as it is required for those in close contact with confirmed COVID-19 cases, those engaging international and cross-regional travel, and those having been exposed in high-risk environments, such as airport employees and international courier staff. We started to offer COVID-19 testing (nucleic acid testing) as early as January 2020. Our Guangzhou laboratory was included by the Guangdong Provincial Health Commission (廣東省衛生健康委) in the first batch of medical institutions with the COVID-19 nucleic acid testing capability.

- *Genetic disease diagnostic tests.* Genetic disease diagnostic tests cover a wide range of genetic reproduction tests and screening tests. According to Frost & Sullivan, the PRC government aims to increase the testing capacity of genetic reproduction tests to cover more than 50% of new birth populations in the PRC by 2022. We therefore expect the demand for genetic reproduction testing will continue to grow in the foreseeable future. We offer genetic screening tests at pre-pregnancy, pregnancy and new-born stages. Genetic disease diagnostic tests aim to help hospitals establish genetic pathology data for each patient so that they can design the most suitable treatment plan for the patient, and detect and prevent infectious disease and hereditary birth defects at pre-pregnancy and pregnancy stages.

- *Routine diagnostic tests.* We also provide certain routine diagnostic tests for chronic kidney disease, blood disease, autoimmune disease and endocrine metabolism disease. Our routine diagnostic tests primarily cover a number of standard biochemical or immunology tests, which are useful in routine health checkups/examinations. Unlike other types of diagnostic tests provided by us, the medical equipment involved in routine diagnostic tests is fully automatic and can generate the test report automatically. It does not require sophisticated diagnostic or medical staff to interpret the report. After the test report is generated, our quality control personnels will follow our quality control requirements to ensure the accuracy of such tests.

Since our inception, we have focused on adopting new technologies for diagnostic testing and have established seven technology platforms as of the Latest Practicable Date, including:

- *Immunological detection technology platform*. Various immune-labeling technologies based on antigen-antibody specific reactions are used to detect infectious diseases, autoimmune diseases, prenatal and postnatal care, allergic diseases and tumor biomarkers.

- *Mass spectrometry technology platform*. Ultra-performance liquid chromatography-tandem mass spectrometry (UPLC-MS/MS), gas chromatography-mass spectrometry (GC-MS), inductively coupled plasma mass spectrometer (ICP-MS), matrix-assisted laser desorption ionization-time of flight mass spectrometry (MALDI)-TOF MS) and other technologies are used to perform genetic and metabolic disease detection, drug concentration detection, hormone and neurotransmitter detection, vitamin and organic acid determination, nutrient and toxic element determination, and microbial identification, among other things.

- *PCR technology platform*. A variety of nucleic acid detection technologies based on are used for genetic disease detection, molecular diagnosis of infectious diseases, individualized tumor treatment, drug gene detection, drug resistance gene detection and short tandem repeat detection, among other things.

- *High-throughput sequencing technology platform*. Based on high-throughput sequencing technology and biological information analysis to conduct non-invasive prenatal screening, single-gene genetic disease carrier screening, genetic disease detection, individualized tumor treatment and infectious disease detection, among other things.

- *Liquid chip technology platform*. Suspension liquid chip technology is used in genetic disease detection, infectious disease detection, tumor gene mutation detection, among other things.

- *Ultra-micro pathological morphology technology platform*. By preparing ultra-micro pathological materials and observing and diagnosing the ultra-microstructure of the specimen under a scanning electron microscope, the platform is used for organ biopsy ultra-micro pathological diagnosis, tumor differential diagnosis, neuromuscular disease diagnosis and pathogen search in infectious diseases, etc.

- *Digital pathology remote diagnosis platform*. Utilizing digital slice scanning technology, web-image browsing and other technologies to digitize traditional pathological slices and perform remote pathological diagnosis, hold discussions for rare cases and conduct remote pathology teaching through the internet.

Diagnostic Outsourcing Services

Currently, hospitals and other medical institutions have high demand for conducting diagnostic testing. However, it is time- and cost-consuming for them to conduct such testing by themselves, which creates significant opportunities for diagnostic outsourcing services providers. Observing these opportunities and leveraging our strong testing capabilities, we offer diagnostic outsourcing services by performing diagnostic testing and conducting results analyses based on test samples provided by hospitals and other medical institutions and charge diagnostic service fees from these medical institutions. Our diagnostic testing portfolio covers over 2,000 tests, including pathology tests, infectious disease diagnostic tests and genetic disease diagnostic tests. Our diagnostic outsourcing services primarily rely on our six ICLs to provide diagnostic testing services for medical institutions that do not have diagnostic capacities to conduct the relevant diagnostic tests themselves. As such, we believe diagnostic outsourcing services can expand our service outreach to a wider group of medical institutions. Further, by providing diagnostic outsourcing services to hospitals that have not yet set up on-site diagnostic centers, we believe it is a good opportunity to demonstrate our professional and standardized diagnostic capabilities and attract potential customers for our diagnostic testing services for medical institution alliances. For the years ended December 31, 2018, 2019, 2020 and 2021, revenue generated from diagnostic outsourcing services amounted to RMB449.3 million, RMB463.1 million, RMB857.7 million and RMB1,024.3 million, respectively, representing 75.3%, 68.3%, 71.5% and 60.4% of our total revenue for the same period, respectively.

The following table sets forth the number of diagnostic tests performed under our diagnostic outsourcing services and the average selling price for each test type during the Track Record Period.

	For the year ended December 31,							
	2018		2019		2020		2021	
	Number of tests ('000)	*Average selling price[(1)] (RMB)*	*Number of tests ('000)*	*Average selling price[(1)] (RMB)*	*Number of tests ('000)*	*Average selling price[(1)] (RMB)*	*Number of tests ('000)*	*Average selling price[(1)] (RMB)*
Infectious disease diagnostic tests	1,363.5	58.6	1,411.4	65.9	7,657.1	72.5	32,987.9	22.2
COVID-19 tests	–	–	–	–	6,202.0	74.4	31,466.3	20.3
Pathology tests	1,353.5	66.4	1,267.1	79.0	1,135.5	84.4	1,166.8	90.6
Genetic disease diagnostic tests	1,090.1	172.3	1,031.1	174.4	903.8	139.7	847.7	120.0
Routine diagnostic tests	3,984.0	23.0	3,101.2	29.1	2,563.8	31.4	2,480.2	34.2

Note:

(1) The average selling prices are calculated by dividing the revenue generated from each test category by the number of tests performed.

The average selling price and the number of tests of genetic disease diagnostic tests both decreased during the Track Record Period primarily because (i) the government has imposed more stringent qualification requirements on hospitals that are eligible to perform genetic disease diagnostic tests, resulting in a decrease in the number of hospitals performing such tests; and (ii) we gradually decreased the prices for genetic disease diagnostic tests while maintaining their profitability as there was a significant decrease in costs of reagents for such tests because the supply surpasses the demand in the market as there are more manufacturers and suppliers in the market given more and more medical operation service providers enter into this market as a result of the growing awareness of diagnostic testing. In addition, during the Track Record Period, the number of routine diagnostic tests gradually decreased primarily because (i) we undertook a non-recurring public health diagnostic outsourcing testing project at a hospital in Foshan, Guangdong province from April to December 2018. Under this project, we completed approximately 0.6 million routine diagnostic tests during such period and (ii) we gradually shifted to other types of diagnostic tests that have higher selling prices. The decrease in the number of pathology tests was primarily due to the business expansion of our diagnostic testing services for medical institution alliances, resulting in an increasing number of pathology tests under diagnostic testing services for medical institution alliances. The average selling price decreased from RMB74.4 in 2020 to RMB20.3 in 2021 primarily because we participated in the governmental COVID-19 full screening project in Guangdong province, in which the testing methodology required us to consolidate a number of test samples in each COVID-19 test in order to expedite the screening process and therefore had a lower average selling price of COVID-19 tests.

Service Process

Our testing professionals will first conduct a preliminary assessment of the test samples to make sure they satisfy our diagnostic testing standards. We will ask the hospitals to arrange re-sampling and delivery if the test samples failed our diagnostic testing standards. After the diagnostic testing procedure is completed, our testing professionals will conduct a preliminary analysis on the diagnostic results with reference to (i) the patient's clinical conditions; and (ii) historical testing results of the same category of diagnostic testing and will issue the diagnostic testing report to the hospital if we are satisfied with the preliminary analysis results. Our testing professionals will also review the whole testing procedure to ensure it follows our quality control standards. If we observe any error or discrepancy in such analysis, we will perform re-testing until we are satisfied with the preliminary analysis results. For all the testings with errors or discrepancies, we will keep the specimen of such sample to analyze the testing procedure, which will enable us to constantly improve our testing techniques and methodologies.

Our Independent Clinical Laboratories ("ICLs")

Tests for our diagnostic outsourcing services are usually performed in our self-operated ICLs. As of December 31, 2021, we had six laboratories located in Guangzhou, Chengdu, Shanghai, Hefei, Kunming and Nanchang, each aiming to provide diagnostic testing services for our customers located in provinces or cities nearby. These ICLs are capable of performing over 2,000 kinds of tests, which covered over 70% of major diagnostic testing categories in the medical operation service market in 2020, according to Frost & Sullivan. The following table sets forth detailed information of our laboratories:

	Year of latest accreditation renewal	**Expiration date of accreditation**	**Number of medical technicians as of the Latest Practicable Date**	**Province/ Municipality**
Guangzhou ICL	Commenced operation in 2006			
– Practice License for Medical Institutions (醫療機構執業許可證)	2018	2024		
– Certificate of Clinical Gene Amplification Test Laboratories (臨床基因擴增檢驗實驗室驗收合格證書)	2019	2024	494	Guangdong
– Qualification Certificate of Inspection and Testing Agency (檢驗檢測機構資質認定證書)	2017	2023		

	Year of latest accreditation renewal	Expiration date of accreditation	Number of medical technicians as of the Latest Practicable Date	Province/ Municipality
Chengdu ICL	Commenced operation in 2009			
– Practice License for Medical Institutions (醫療機構執業許可證)	2021	2026		
– Filing for Biosafety Management of Pathogenic Microbiology Laboratories (可感染人類病源微生物二級生物安全實驗室備案登記)	2020	2025	65	Sichuan
– Clinical Gene Amplification Laboratory Acceptance (臨床基因擴增實驗室技術驗收審核)	2018	N/A		
Shanghai ICL	Commenced operation in 2006			
– Practice License for Medical Institutions (醫療機構執業許可證)	2018	2023		
– Certificate of Clinical Gene Amplification Test Laboratories (臨床基因擴增檢驗實驗室驗收合格證書)	2018	2023	37	Shanghai
– Pathogenic Microbiology Laboratory Record Certificate (病原微生物實驗室備案憑證)	2019	N/A		
Hefei ICL	Commenced operation in 2009			
– Practice License for Medical Institutions (醫療機構執業許可證)	2018	2023		
– Certificate of Clinical Gene Amplification Test Laboratories (臨床基因擴增檢驗實驗室驗收合格證書)	2020	2025	46	Anhui
Kunming ICL	Commenced operation in 2010			
– Practice License for Medical Institutions (醫療機構執業許可證)	2021	2026	37	Yunnan

	Year of latest accreditation renewal	Expiration date of accreditation	Number of medical technicians as of the Latest Practicable Date	Province/ Municipality
Nanchang ICL	Commenced operation in 2009			
– Practice License for Medical Institutions (醫療機構執業許可證)	2020	2025	21	Jiangxi
– Pathogenic Microbiology Laboratory Filing (病原微生物實驗室備案)	2020	2025		

In addition to the ICLs listed above, we have opened new ICLs in Jinan, Shantou, Foshan and Zhuhai in early 2022 and are in preparation to open a new ICL located in Baiyun District of Guangzhou, which are expected to be completed and opened in the second quarter of 2022. In addition, we are preparing to open several more ICLs in Shenzhen, Dongguan, Nanning and Huizhou in the second half of 2022.

The following table set forth the utilization rate of our six ICLs during the Track Record Period.

	For the year ended December 31,											
	2018			2019			2020			2021		
	Actual Output *('000)*	Maximum Output[(1)] *('000)*	Utilization Rate[(2)(3)] %	Actual Output *('000)*	Maximum Output[(1)] *('000)*	Utilization Rate[(3)] %	Actual Output *('000)*	Maximum Output[(1)] *('000)*	Utilization Rate[(2)(3)] %	Actual Output *('000)*	Maximum Output[(1)] *('000)*	Utilization rate[(2)(3)(5)] %
Guangzhou ICL	5,747.4	7,150.0	80.4	5,597.0	7,150.0	78.3	11,183.8	14,300.0	78.2	47,374.5	61,861.1	76.6
Chengdu ICL	861.3	1,100.0	78.3	793.8	1,100.0	72.2	1,170.3	1,540.0	76.0	2,264.7	3,865.3	58.6
Shanghai ICL	468.2	660.0	70.9	471.7	660.0	71.5	548.4	770.0	71.2	1,355.2	2,455.4	55.2
Hefei ICL	1,054.2	1,430.0	73.7	716.1	517.9	72.3	822.0	1,100.0	74.4	1,288.4	2,325.1	55.4
Kunming ICL[(3)]	113.2	143.0	79.2	132.5	176.0	75.3	117.6	176.0	66.8	139.6	369.0	37.8
Nanchang ICL[(4)]	472.3	660.0	71.6	413.4	660.0	62.6	419.3	660.0	63.5	412.9	892.9	46.2
Total	8,716.7	11,143.0	78.2	8,124.5	11,736.0	75.7	14,263.4	18,546.0	76.9	52,835.3	71,768.9	73.6

Notes:

(1) The maximum output is calculated based on the assumption that our ICLs work at their annual maximum output which represents the maximum tests we are able to conduct in each period. The annual maximum output is assumed on the basis that each ICL works eight hours per day for 260 days (average annual work days) per year. The increase in maximum output during the Track Record Period are primarily attributable to the procurement of new testing equipment.

(2) The utilization rate is calculated using the actual tests conducted by each ICL divided by the maximum output it would be able to conduct.

(3) The utilization rate of our Kunming ICL decreased from 79.2% in 2018 to 75.3% in 2019 due to the improvement and upgrade of our Kunming ICL, and it further decreased to 66.8% in 2020 mainly because of the impacts of COVID-19 in which it did not provide COVID-19 tests.

(4) The utilization rate of our Nanchang ICL decreased from 71.6% in 2018 to 62.6% in 2019 as it undertook certain routine diagnostic test projects in 2018, which had a high testing volume.

(5) All of our ICLs, which in response to the COVID-19 pandemic, starting from 2020, have their testing capacity and output significantly enhanced, except for our Kunming ICL which does not obtain the PCR testing qualification for provision of COVID-19 tests. As such, the utilization rate for our ICLs generally decreased in 2021.

As advised by our PRC Legal Advisors, all of our ICLs had complied with the applicable PRC laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date.

Experts and Technicians

The following table summarizes the information of the medical technicians (including those stationed at the on-site diagnostic centers) during the Track Record Period.

	As of December 31,				As of the Latest Practicable Date
	2018	**2019**	**2020**	**2021**	
Number of medical technicians	439	586	639	1,009	1,459
Number of technicians holding medical diagnostic licenses	165	212	224	413	542
– Pathology certificate	44	59	41	81	67
– Diagnostic certificate	121	153	183	332	475
Percentage	37.6%	36.2%	35.1%	40.9%	37.1%

Our medical technicians who do not hold qualifications are trained to be assistants for the qualified technicians. Our testing professionals are responsible for performing diagnostic testing and results analyses, and maintaining diagnostic testing equipment.

In order to help our customers in their pathological operations, we engaged a number of pathologists, who are external pathology doctors at third-party hospitals. We paid them a service fee based on the number of pathological consultation they provided. Normally, they will review the pathology diagnostic testing reports and provide distant pathological consultation services for doctors at the hospitals within the medical institution alliances. The amount of fees we paid to our pathologists were recorded as cost of revenue in our consolidated statements of comprehensive income for the respective period. The following table summarizes details of the pathologists we engaged during the Track Record Period.

	For the years ended December 31,			
	2018	**2019**	**2020**	**2021**
Number of pathologists we engaged	46	61	87	90
Total service fees we paid	RMB3.2 million	RMB4.2 million	RMB5.6 million	RMB5.9 million
Average service fees per pathologist	RMB69,683	RMB68,482	RMB64,102	RMB65,401

During the Track Record Period, the service fees we paid to each pathologist gradually decreased primarily because we expanded our qualified pathologist pool for our services which is in line with our business growth.

Salient Terms of Diagnostic Outsourcing Service Agreements

For the years ended December 31, 2018, 2019, 2020 and 2021, we provided diagnostic outsourcing services to 2,619, 2,296, 2,634 and 2,922 customers, primarily include hospitals and other medical institutions, including 707, 665, 708 and 737 Class III and II hospitals, respectively. We normally enter into diagnostic outsourcing service agreements with these customers through public tenders or negotiations. Key terms of our diagnostic outsourcing service agreements are summarized as below:

- *Term.* Our diagnostic outsourcing service agreements generally have a term ranging from one to two years with an option for renewal upon expiration.

- *Payment and credit term.* We set unit prices for different diagnostic tests in our agreements with reference to the local pricing protocol. Under the diagnostic outsourcing agreements, hospitals, other medical institutions and public institutions pay us for each diagnostic test performed. We generally invoice hospitals, other medical institutions and public institutions on a monthly basis. We generally provide credit terms of one to three months.

- *Testing protocol.* We are responsible to conduct the relevant diagnostic tests in accordance with the applicable national standards.

- *Logistics arrangement.* Hospitals are generally responsible to collect, store and process the test samples and we are responsible for transportation and performing diagnostic testing.

- *Termination.* If the agreement cannot be performed for reasons changes in PRC laws, regulations and policies which may impose restrictions or conditions on the performance of the agreement, subject to any provision requiring parties to engage in negotiation for proper adjustments, the agreement shall be terminated.

Diagnostic Testing Services for Medical Institution Alliances

We offer diagnostic testing services for medical institution alliances. The first key step of these services is to assist in establishing an on-site diagnostic center at the lead hospital. Through the on-site diagnostic centers, medical institutions have the opportunity to build up their diagnostic capacities in a more efficient way as the test samples collected at the medical institutions do not need to be delivered to the ICLs for testing. Instead, the medical institutions can complete the testing at these diagnostic centers on-site. Relying on our services, member hospitals can offer standardized diagnostic testing services to patients, and, with our issued diagnostic testing reports, better understand the characteristics and conditions of the patients and direct the patients to the most suitable medical institution within the alliances that has the most experiences in handling similar patients. As of the Latest Practicable Date, our diagnostic testing services for medical institution alliances spanned 20 provinces and municipalities. For the years ended December 31, 2018, 2019, 2020 and 2021, our revenue generated from diagnostic testing services for medical institution alliances amounted to RMB100.8 million, RMB166.1 million, RMB275.8 million and RMB619.4 million, respectively, representing 16.9%, 24.5%, 22.9% and 36.5% of our total revenue for the same periods, respectively.

Medical Institution Alliances

Medical institution alliance is a collaboration of medical institutions and is a widely used term in China, which refers to regional healthcare system consisting of primary, secondary and tertiary medical institutions, under which medical resources can be shared efficiently, aiming to improve the service quality of primary medical institutions, allocate patients to the appropriate hospitals based on their medical conditions, and balance the uneven distribution of medical resources and diagnosis demands in China. In particular, medical institutions are encouraged to strengthen regional medical resources-sharing within the medical institution alliances, by setting up diagnostic centers to provide services of same quality among themselves, and promote mutual recognition of diagnostic results.

As part of the healthcare reform, the PRC government has established a series of policies to support the HDTS and medical institution alliance. One of the key measures adopted is the establishment and promotion of medical institution alliances. In recent years, the PRC government has promulgated a series of regulations to promote the development of medical institution alliances, including the Guidance on Promoting Medical Institution Alliances in China (關於推進醫療聯合體建設和發展的指導意見) issued by the State Council in April 2017

and the Interim Measures on Medical Institution Alliance Management (醫療聯合體管理辦法(試行)) issued by the National Health Commission of the PRC in July 2020 ("**Measures**"). Pursuant to the Measures, medical institutions are encouraged to join medical institution alliances to enhance the HDTS in China. The establishment of these medical institution alliances is usually initiated by either local governments/health commissions or independently by medical institutions, based on actual medical needs. Such systems exist in different forms of collaboration among different classes of medical institutions with unified management of their internal operations and resources to different extents.

As a result of the various policies promoting medical institution alliances, the concept of medical institution alliances is gaining an increasing awareness among the general public. Except for certain medical institution alliances having a clear organizational structure open to the public or even having been integrated into a unified legal entity, the medical institution alliances are more of a form of collaboration among different classes of medical institutions and patients may only come to know the collaboration within a medical institution alliance in the course of diagnosis and treatment, such as mutual recognition of diagnostic results, mutual referral, and dispatch of experts from higher-level hospitals to lower-level medical institutions.

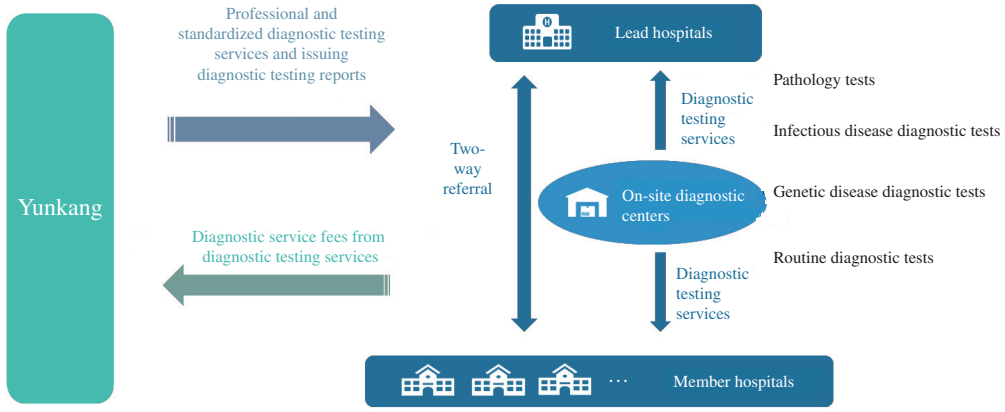
A medical institution alliance normally consists of a lead hospital (being a Class II/III hospital) and a number of member hospitals usually being lower class hospitals that need supports or resources from the lead hospital. The lead hospital will take lead of the operation and management for the medical institution alliance and realize the optimal allocation of medical resources. For most diseases, a patient shall go to member hospitals for diagnosis and preliminary treatment; and if the patient, after being diagnosed at member hospitals, is considered that further treatment at the lead hospital is required, he/she will then be directed to the lead hospital. As such, patients shall be diagnosed and treated in member hospitals if having common or chronic diseases, and the lead hospital can then focus its medical resources on patients with critical conditions or complex diseases that are beyond the capability of member hospitals, with the potential to also improve its efficiency. This collaborative process calls for significant demand for standardized and professional diagnostic testing capabilities within the medical institution alliances to enable efficient resources allocation and patient referral practice.

As one of the most effective measures to enhance the diagnostic capacities and capabilities of the medical institution alliance as a whole, normally the lead hospital will establish an on-site diagnostic center and test samples from member hospitals can be delivered to the center for testing. Through this approach, all members of the medical institution alliance can enjoy the standardized and professional diagnostic capabilities and patients can be referred and directed to the most suitable medical institutions within the medical institution alliances based on their diagnostic testing results. To promote the optimal allocation of medical resources, patients with common and chronic diseases are encouraged to seek treatment in primary medical institutions, while patients with critical conditions or complex diseases that are beyond the ability of primary medical institutions should be treated in secondary or tertiary medical institutions, which then also have the potential to improve their efficiency.

Our Value Propositions

The following diagram illustrates our role and value propositions in our diagnostic testing services for medical institution alliances.

Medical Institution Alliances



The on-site diagnostic center is normally located at the lead hospital. Member hospitals within the same medical institution alliance may also use the diagnostic capacities of the center, as they will also deliver their test samples to the diagnostic center for testing. Therefore, our diagnostic testing services for medical institution alliances assist hospitals to better manage their diagnostic operation by centralizing and utilizing their resources to enhance the diagnostic capacities of the whole medical institution alliance.

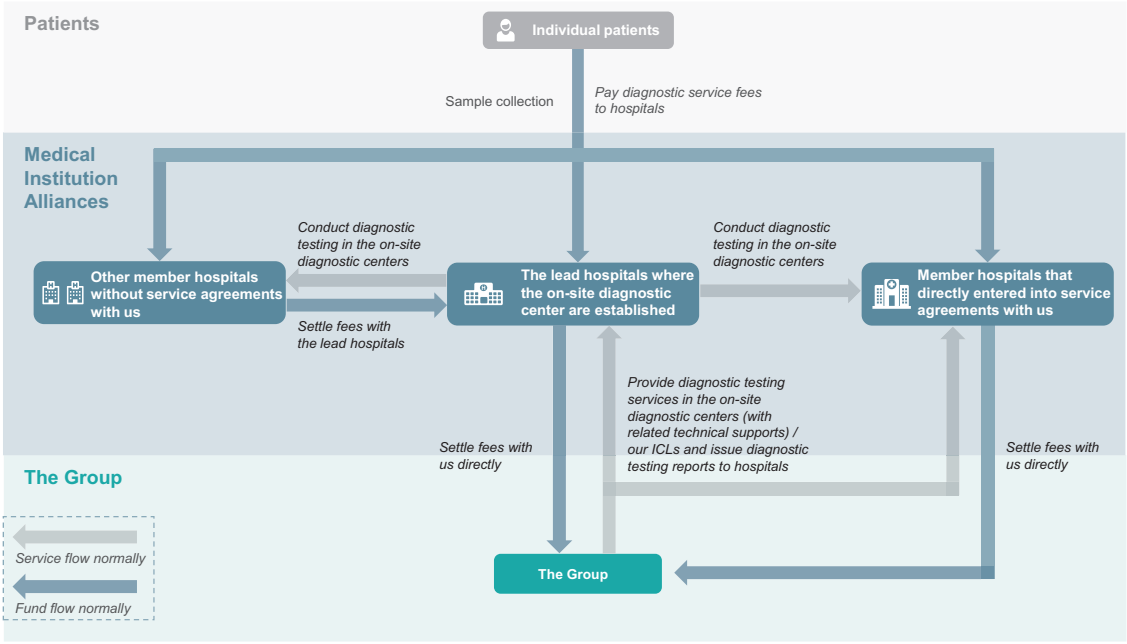
As an industry norm, although the service and collaboration agreements for the on-site diagnostic centers normally do not contain an exclusivity clause, medical institutions will normally engage the medical operation service providers such as us to perform other types of diagnostic tests that these diagnostic centers are not capable of performing themselves. Therefore, if the centers are not capable of performing certain diagnostic tests, they may utilize diagnostic capacity of our nearby ICLs. In return, we charge medical institutions for diagnostic testing services based on the number of diagnostic tests performed (either by the on-site diagnostic centers or by our ICLs).

To facilitate the operation of the on-site diagnostic centers, we provide a wide range of technical supports. Such technical supports only create channels for generating revenue from diagnostic testing services but do not generate revenue directly from themselves. We provide these services integrated as a service package to medical institutions based on their needs. This service package mainly include technical supports and daily assistance for operations, which is important because many of the medical institutions do not have sufficient or expertise in diagnostic testing and therefore need the support of medical operation service providers in relation to the provision of testing equipment, staff training, on-site testing expertise and

establishment of standardized procedures and protocols, as well as assistance in the logistics of test samples. As a result of our involvement, we are also responsible for issuing diagnostic testing reports to the lead hospital. If our collaboration with a medical institution is terminated, we will withdraw all of our technicians as well as the testing equipment provided by us and the operations of the on-site diagnostic centers may be suspended. As such, we believe it is relatively difficult for the medical institution to build its diagnostic capacities in a short time.

For member hospitals, which are usually Class I hospitals or unrated hospitals, they can also enjoy the diagnostic testing services from the on-site diagnostic center that we assisted in establishing and operating at the lead hospital by delivering their test samples to the lead hospital, and they may choose to settle the diagnostic service fees directly with us or through the lead hospital. Some of these hospitals do not directly enter into service agreements with us. In such event, they will deliver their test samples to the lead hospital with which we have a contractual relationship and diagnostic testing on the test samples will be conducted at the on-site center and the lead hospital will settle the relevant service fees with us directly.

The following chart summarizes the normal service and fund flows of our diagnostic testing services for medical institution alliances.



The following table summarizes the types of on-site diagnostic centers in operation during the Track Record Period:

	As of December 31,				As of the Latest Practicable Date
	2018	2019	2020	2021	
Infectious disease centers	–	–	17	67	108
Pathology centers	63	109	153	175	179
Genetic disease centers	6	6	8	11	12
Routine centers	10	17	21	22	23

Service Scope

Supported by our core operating modules covering major aspects of our services for on-site diagnostic centers, we provide solutions to facilitate the operation of the on-site diagnostic centers, including but not limited to the following services based on our customers' needs or issuing diagnostic testing reports as a major diagnostic testing service provider.

- *Setting-up or upgrading diagnostic centers*. We usually help build up an on-site diagnostic center at the lead hospital in one of the four major therapeutic areas, namely pathology, infectious disease, genetic disease and routine diagnostic tests. We will also provide one to seven technicians to work at the center. In the meantime, the lead hospital will have one to seven personnel working at the center. If lead hospitals do not have sufficient capabilities and/or capacities to perform certain diagnostic tests, we will provide our expertise in diagnostic technologies, on-site staff, IT systems and testing equipment as appropriate to assist them to perform or upgrade the diagnostic testing at such centers.

- *Establishment of standard operating procedures*. Leveraging our knowledge of national and international diagnosis standards, we help medical institutions within the alliances to establish standard operating procedures to enhance their diagnostic testing efficiency and quality management in diagnostic testing. The establishment of standard operating procedures is supported by our quality control module. In order to enhance accuracy in diagnostic testing results, we have established relationships and maintained active collaboration with international standardization institutions. For example, we established a strategic relationship with CLSI since 2013, and have since then been the only laboratory collaborating with CLSI in China. We perform diagnostic testing in compliance with ISO1518 and CAP Guidelines. We also promote the adoption of these international standards to be followed by medical institutions within the alliances.

- *Diagnostic consultation and staff training*. We also offer on-site training and seminars to the staff of medical institutions within the alliances. These trainings primarily cover the standard procedures to handle test samples. We have also established an online consultation platform, under which our customers may upload patients' pathological reports onto the platform. We have engaged external pathologists to review these reports online to provide pathology guidance for hospitals and doctors. We normally enter into consultation service agreements with these pathologists for a fixed period ranging from one to three years and we pay them a service fee every time they conduct a pathology review. We review the qualifications and experience of these pathologists before engaging them and we will not engage them if we do not consider them qualified for the position. We engaged a total number of 46, 61, 87 and 90 pathologists as of December 31, 2018, 2019, 2020 and 2021, respectively. The related staff costs charged to the profit or loss amounted to RMB3.2 million, RMB4.2 million, RMB5.6 million and RMB5.9 million during the same periods. The amount of fees we paid to our pathologists were recorded under cost of revenue in our consolidated statements of comprehensive income for the respective period.

- *Procurement of equipment*. We help medical institutions procure upgraded or new testing equipment to meet the increasing diagnostic demands and enhance their testing capabilities. Major testing equipment used at these on-site diagnostic centers are procured and provided by us. Generally, the testing equipment we provided to them shall be returned to us if the relevant service and collaboration agreement is expired or terminated.

- *Smart Internet of things*. We have established a smart Internet of things platform connecting our testing equipment, which can monitor the status of the testing equipment at these on-site diagnostic centers at our headquarters level. This platform will send the operation and maintenance data of testing equipment at these diagnostic centers to our system so that we can monitor the operating status of testing equipment to ensure the accuracy and efficiency of diagnostic testing, which we believe can enhance customer loyalty. In addition, we also formulated a hierarchical diagnosis and treatment module, which focuses on sharing information and allocating resources among medical institutions within the alliances through intelligent technologies. We will distribute diagnostic information to relevant hospitals online, and help hospitals direct patients to the most appropriate hospital for treatment. Our hierarchical diagnosis and treatment module involves a Yunkang telepathology platform, through which hospitals are able to conduct remote consultation, referral consultation and online transmission of testing results.

- *Logistics assistance*. We also offer logistics services to deliver test samples to the on-site diagnostic centers from member hospitals. As these diagnostic centers are typically built at the lead hospitals, member hospitals may utilize our logistics services to deliver test samples to the corresponding diagnostic centers. In addition, if these diagnostic centers are not capable of performing certain diagnostic tests, the test samples may be delivered directly to our nearby ICLs for diagnostic testing. Supported by our smart logistic module, we follow the national pharmaceutical cold chain logistics operation specifications when delivering test samples. We also adopt real-time tracking and visual monitoring to ensure our staff comply with the specifications when delivering test samples.

- *Diagnostic testing*. Our technicians are involved in the daily operations of the on-site diagnostic centers to perform diagnostic tests at the centers. In addition, medical institutions may also use the diagnostic capacity of our nearby ICLs if these diagnostic centers are not capable of performing certain diagnostic tests. Afterwards, we will issue diagnostic testing reports.

- *Other services*. In addition to the above, we also formulated a marketing module and a supply chain module, which aims to provide marketing and supply chain management services. We offer marketing and promotion services for the medical institution alliances to expand their regional coverage. Based on our cooperation with different medical institutions, we have gained a comprehensive understanding of each medical institution's relative advantages in diagnostic testing operations and its diagnostic capacities. As such, we will recommend medical institutions to the most suitable medical institution alliances based on their particular needs. We also provide information management services, client relationship management and inventory management services for medical institutions.

Case Study

A case study for an existing on-site diagnostic center is summarized as follows:

We entered into a service and collaboration agreement with Hospital A, which is a Class III hospital, in June 2019. Hospital A aims to improve its pathology health service quality and recruit sufficient professionals to support its operation. Under the agreement, we are obligated to establish a diagnostic and pathology operation with an online pathology consultation center and a molecular pathology platform. The online pathology consultation center allows experts in other cities to provide external consultancy for patients in Hospital A. The molecular pathology platform will be equipped with a digital PCR platform and a high throughput sequencing platform to conduct cancer early detection, infectious disease and genetic disease testing. We are also required to establish standard operating procedures, arrange at least three pathologists to work on-site, hire 10 experienced pathologists as consultants and provide systematic pathology training. The agreement has a term of five years.

Since signing the agreement, we have established standardized operating procedures for Hospital A and the arrangement is being implemented. We have also implemented an online platform to liaise with other members in the medical institution alliance. We plan to work with Hospital A to procure advanced diagnostic testing equipment and upgrade Hospital A's existing testing laboratory in the near future. We invested and provided approximately 30 sets of testing and operation equipment, such as automatic typing and sealing machine and high-speed centrifuge machine. In addition, we also have seven full-time technicians working at the pathological diagnostic center at Hospital A. The operation of the diagnostic center is supervised and managed by one senior staff from the hospital who is responsible for the overall management of the diagnostic center.

Number of On-site Diagnostic Centers

As of the years ended December 31, 2018, 2019, 2020 and 2021, we assisted in establishing and operating 79,132, 199 and 275 on-site diagnostic centers, respectively. As of the Latest Practicable Date, we assisted in establishing and operating 322 on-site diagnostic centers. The following table sets forth the changes in the number of on-site diagnostic centers we assisted in establishing and operating during the Track Record Period.

	For the year ended December 31,				As of Latest
	2018	2019	2020	2021	Practicable Date
As of the beginning of the period	47	79	132	199	275
Additions of on-site diagnostic centers	32	53	68	76	47
Termination of on-site diagnostic centers	–	–	1	–	–
As of the end of the period	79	132	199	275	322

For the years ended December 31, 2018, 2019, 2020 and 2021, there were three, three, 19 and 39 service and collaboration agreements that expired, respectively. Except for one contract in 2020 which the hospital did not renew with us after expiry as it was solely for the purpose of carrying out COVID-19 tests in Wuhan when the COVID-19 pandemic was at its peak in Wuhan, we successfully renewed all the contracts that expired during the period. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any early-termination of service and collaboration agreement with any medical institution.

Salient Terms of Contracts with Lead Hospitals

We normally enter into service and collaboration agreements with lead hospitals through public tenders or negotiations. Key terms of our service and collaboration agreements with lead hospitals are summarized as below:

- *Term.* Our service and collaboration agreements generally have a term ranging from three to five years.

- *Payment and credit term.* Under our service and collaboration agreements, hospitals generally pay us a service fee for the testing services performed. The service fee is determined by us based on the diagnostic testing price as promulgated by the relevant authorities. We invoice and settle with member hospitals on a monthly basis. We provide credit terms to member hospitals ranging from one to three months.

- *Service.* The agreement usually sets out the specific services we are responsible for providing, including the number of items or equipment we will provide. For medical equipment we provide, the hospital will return them to us upon the expiry of the agreement.

- *Termination.* If the agreement cannot be performed for reasons including changes in PRC laws, regulations and policies that may impose restrictions or conditions on the performance of the agreement, subject to any provision requiring parties to engage in negotiation for proper adjustments, the agreement shall be terminated.

- *Renewal.* Most of our service and collaboration agreements contain an automatic renewal clause, pursuant to which the contract shall be automatically renewed for the same period upon expiry if no party objects.

As of December 31, 2021, among the 275 on-site diagnostic centers we assisted in establishing and operating, the service and collaboration contracts with 68 of them will expire in 2022. We plan to renew the service and collaboration contracts with them after their expiration.

Diagnostic Testing Services for Non-medical Institutions

We offer diagnostic testing services for non-medical institutions. For the years ended December 31, 2018, 2019, 2020 and 2021, we served 200, 55, 128 and 303 non-medical institutions, respectively, which primarily included financial institutions and insurance companies. For the years ended December 31, 2018, 2019, 2020 and 2021, our revenue generated from diagnostic testing services for non-medical institutions amounted to RMB46.2 million, RMB48.7 million, RMB66.8 million and RMB53.1 million, representing 7.8%, 7.2%, 5.6% and 3.1% of our total revenue for the same period, respectively. In particular, we ceased cooperations with insurance companies in 2019, which generally had a higher testing volume but a lower average selling price, as we gradually shifted our focus to cooperate with other non-medical institutions which we are able to charge a high selling price.

We operate an outpatient clinic, which only serves customers under diagnostic testing services for non-medical institutions. Under the current PRC regulatory regimes, ICLs normally cannot collect test samples directly from the general public. As such, our outpatient clinic primarily serves individual customers of the general public as well as employees of our non-medical institution customers. The outpatient clinic primarily provides routine diagnostic tests for health checkup purposes and COVID-19 tests. For those who received diagnostic tests at our outpatient clinic, we also provide basic medical consultation services to them based on the diagnostic testing reports we issued and refer them to the suitable hospitals for further treatment that we consider appropriate.

For the years ended December 31, 2018, 2019, 2020 and 2021, we had two, one, one and one outpatient clinic, respectively. In 2018, we had two outpatient clinics in Jinan and Guangzhou, respectively and our outpatient clinic in Jinan was closed in November 2018. In 2019, in order to better serve our customers, we closed our outpatient clinic in a suburban area in Liwan District (荔灣區) of Guangzhou and opened a new outpatient clinic in an urban area in Yuexiu District (越秀區) of Guangzhou. For the years ended December 31, 2018, 2019, 2020 and 2021, our outpatient clinic performed 2,611, 2,459, 84,434 and 360,139 diagnostic tests, respectively. The significant increase in diagnostic tests in 2020 was primarily because of the increasing demand for COVID-19 tests during the COVID-19 pandemic. As of the Latest Practicable Date, the outpatient clinic was staffed with three doctors, two of which held professional medical physician qualifications and one of which held professional medical physician assistant qualification; one pharmacist who held elementary pharmacist qualification; and five nurses who held elementary nurse qualifications. As advised by our PRC Legal Advisers, our outpatient clinic had complied with the applicable PRC laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date.

OUR CUSTOMERS

During the Track Record Period, our customers primarily consisted of hospitals, community health clinics and other medical institutions (such as woman's and children's dispensaries, township health center and village clinics), as well as financial institutions, insurance companies and high net worth individuals. During the Track Record Period, a significant number of our customers were located in Guangdong province, accounting for 41.9%, 48.2%, 51.8% and 54.6% of our total customers for the years ended December 31, 2018, 2019, 2020 and 2021, respectively.

The following table sets forth the number of our customers of medical institutions and non-medical institutions for the periods indicated:

	For the year ended December 31,			
	2018	2019	2020	2021
Medical institutions				
Diagnostic outsourcing services	2,619	2,296	2,634	2,922
Diagnostic testing services for medical institution alliances	184	219	262	334
Non-medical institutions	200	55	128	303
Total	3,003	2,570	3,024	3,559

Medical Institutions

During the Track Record Period, our medical institution customers primarily included (i) hospitals, clinics and other medical institutions to which we provide diagnostic outsourcing services through our ICLs and (ii) lead hospitals and member hospitals within medical institution alliances to which we provide diagnostic testing services for medical institution alliances through the assistance in establishing and operating the on-site diagnostic centers. The medical institutions we collaborated with were primarily located across 31 provinces and municipalities in China, with the majority located in the same provinces/municipalities with our ICLs. In addition, some medical institutions located in areas distant from our ICLs may also engage us for diagnostic testing services as it is hard for them to find qualified ICLs to provide diagnostic testing services nearby and they consider our services can better match their diagnostic testing needs. During the Track Record Period, over 60% of our revenue were generated from public medical institutions (primarily being not-for-profit medical institutions organized by the government) in China. The following table sets forth a breakdown of our medical institution customers by geographical location for the periods indicated.

	Diagnostic outsourcing services				Diagnostic testing services for medical institution alliances			
	For the year ended December 31,							
	2018	2019	2020	2021	2018	2019	2020	2021
Guangdong	1,114	1,140	1,501	1,687	61	78	99	153
Sichuan	417	326	383	410	13	21	30	33
Shanghai	113	69	122	138	–	–	1	1
Anhui	233	173	179	202	–	5	13	15
Jiangxi	435	343	276	283	–	1	2	5
Yunnan	40	12	13	15	100	84	61	61
Henan	7	8	2	6	–	–	2	4
Jiangsu	52	37	28	33	–	–	–	–
Others	208	188	130	148	10	30	54	62
Total	2,619	2,296	2,634	2,922	184	219	262	334

We provide diagnostic outsourcing services to hospitals, clinics and other medical institutions. For the years ended December 31, 2018, 2019, 2020 and 2021, we provided diagnostic outsourcing services to 2,619, 2,296, 2,634 and 2,922 customers, respectively, which primarily include hospitals and other medical institutions, including 251, 244, 235 and 243 Class III hospitals and 456, 421, 473 and 494 Class II hospitals, respectively.

For the years ended December 31, 2018, 2019, 2020 and 2021, we also served 184, 219, 262 and 334 medical institution customers including lead hospitals and member hospitals that entered into service and collaboration agreements with us under our diagnostic testing services for medical institution alliances. These customers included the 79, 132, 199 and 275 lead hospitals that we assisted in establishing and operating on-site diagnostic centers for the provision of diagnostic testing services. For some medical institution alliances, there were member hospitals which did not directly enter into service and collaboration agreements with us but delivered their test samples to the on-site diagnostic centers at the corresponding lead hospitals. We provide services to these member hospitals according to the scope of services under the service and collaboration agreements we entered into with their corresponding lead hospitals and they settled payment with us through the corresponding lead hospitals. Under our diagnostic testing services for medical institution alliances we served a total of 267, 372, 450 and 693 medical institutions including lead hospitals and member altogether for the years ended 2018, 2019, 2020 and 2021, respectively.

As of the Latest Practicable Date, we had assisted in establishing and operating 322 on-site diagnostic centers, serving over 700 medical institutions under our diagnostic services for medical institution alliances.

Non-Medical Institution Customers

For our diagnostic testing services for non-medical institutions, our customers are primarily financial institutions and insurance companies. For the years ended December 31, 2018, 2019, 2020 and 2021, we offered diagnostic testing services for non-medical institutions to 200, 55, 128 and 303 customers, respectively.

Five Largest Customers

During the Track Record Period, our revenue generated from our five largest customers accounted for less than 30% of our total revenue for each of the years ended December 31, 2018, 2019, 2020 and 2021. As of the Latest Practicable Date, none of our Directors, their associates or any shareholders which, to the knowledge of our Directors, owned more than 5% of the issued share capital of our Company as of the Latest Practicable Date, had any interest in any of our five largest customers during each year of the Track Record Period.

SALES AND MARKETING

Sales Model

We adopt a direct sales model. During the Track Record Period, we entered into service agreements directly with our customers. As of the Latest Practicable Date, we had 266 sales and marketing personnel. Our in-house sales and marketing team is mainly responsible for our marketing activities and regularly sponsors or participates in various academic conferences and seminars, including large national and provincial medical conferences. We also promote sales of our services through developing strong business relationships with hospitals. Our staff are stationed on-site at medical institutions to provide guidance and advice on diagnostic testing. We contracted with Independent Third Parties to provide training to staff to enhance their knowledge of diagnostic testing, which in turn enhances customer stickiness and increase demand for our products.

In addition to our in-house marketing efforts, as an industry norm we also engage a number of marketing service providers, who are Independent Third Parties, to promote our services to hospitals. Medical operation service providers engage third-party marketing service providers primarily because they lack sufficient resources for market penetration themselves, especially considering that the broad geographic coverage makes it difficult for them to conduct market development activities on their own without the assistance of local third-party marketing service providers. These third-party marketing service providers are normally local companies which have resources and access to penetrate local hospitals, most of which were acquainted with us through recommendations. We normally only engage one marketing service provider for each hospital or for each hospital department and each third-party marketing service provider is generally responsible for the promotion of certain types of diagnostic tests at a specific hospital. We have established stringent internal procedures to establish partnership with third-party marketing service providers. We normally select third-party marketing providers based on prior background search with various factors, such as their professional qualifications, industry experience, reputation, project specialty and project track record. Once they have satisfied our internal evaluation procedure and successfully promoted our services, we will sign service agreement with the hospital. Thus, we can trace the settlement record with such hospital to determine the service fees to be paid to such third-party marketing service provider.

Although these third-party marketing service providers do not need to hold any specific permits or licenses in China for their services, we have adopted a series of policies and protocols to monitor the performance of, and compliance with relevant laws and regulations by these third-party marketing service providers. We assess the third-party marketing service providers based on their market positions, reputation and the target services to be marketed before entering into service contracts with them. We have also established a whistleblower reporting system enabling employees and our customers to report any suspicious activities. We will conduct an annual review of the compliance record and we will investigate any suspicious transactions we identified and we will terminate the marketing agreement with the third-party marketing service provider if we consider them in breach of our anti-bribery and anti-corruption policies. Further, we have established internal compliance guidelines for those

third-party marketing service providers we choose to partner with. The guidelines stipulate the daily standards and protocols of the marketing practice as well as incorporating relevant non-competition undertakings and anti-bribery policies. We will be able to terminate the service contract with a marketing service provider if it breaches any of the terms in the guidelines.

We also implement specific procedures for our third-party marketing service providers and require them to conduct periodic review and submit to us review reports for the assessment of their performance. At our headquarters level, we have appointed designated personnel to closely monitor the behavior of our third-party marketing service providers. We also conduct regular communications with medical institutions to review the performance of our third-party marketing service providers and to identify any potential risks or issues. The medical institutions are encouraged to provide anonymous report to us if there is any breach of the non-competition undertaking or anti-bribery clause by a marketing service provider and we will terminate the agreement with the marketing service provider immediately if we consider there is sufficient proof for such incidents. We normally evaluate the performance of our third-party marketing service providers based on the number of medical institutions they assist us in penetrating and the number of diagnostic tests performed for medical institutions.

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm we had not identified any incidents of material breaches by our third-party marketing service providers. We believe these third-party marketing service providers have resources and access to medical institutions, especially in new markets where we do not have presence or existing relationship with medical institutions. We enter into service contracts directly with hospitals that they promote our services to.

Terms of the Service Agreements

We generally enter into marketing agreements with our third-party marketing service providers for a term ranging from one to three years. Key terms of our marketing agreements with the third-party marketing service providers are summarized below.

- *Nature and Scope of the Service*. Our third-party marketing service providers are responsible for promoting our services through various activities including but not limited to visiting hospitals and organizing academic conferences. In addition, our third-party service providers visit our customers on behalf of us on a regular basis to maintain the long term relationship and ensure we receive their feedback in a timely manner. They also assist us in collecting receivables from our customers.

- *Payment*. We normally pay to third-party marketing providers based on a certain percentage of the revenue we generated from the diagnostic tests which were promoted by them on a monthly basis. For details, please see "Financial Information—Description of Key Items in Our Consolidated Statements of Comprehensive Income—Selling Expenses."

- *Pricing*. Depending on the different types of diagnostic tests, we generally set the service fee based on a certain percentage of the revenue we generate from provision of diagnostic services, which is determined based on the number of diagnostic tests that we have performed for the relevant medical institutions that the third-party marketing service provider has provided marketing services. For a majority of our third-party marketing service providers during the Track Record Period, the percentage we paid them generally ranged from 15% to 45%, which are generally comparable to that of our competitors, according to Frost & Sullivan.

- *Non-Competition and Anti-Bribery*. Our third-party marketing service providers are generally not allowed to promote any other products or services that compete with, or have any conflict of interest with, any of our services. We also require our third-party marketing service providers to strictly comply with our stringent anti-bribery policies and protocols.

- *Termination*. Upon any breach of such non-competition undertaking by a third-party marketing service provider, we may terminate the relevant agreement and are entitled to claim damages from such service provider.

Our Directors confirm that to the best of their knowledge, information and belief, none of the third-party marketing service providers, their directors, shareholders or senior management, or any of their respective associates, have any other past or present relationships (including, without limitation, business, employment, family, financing or otherwise) with us, our subsidiaries, our Shareholders, Directors or senior management, or any of their respective associates.

For the years ended December 31, 2018, 2019, 2020 and 2021, our selling expenses amounted to RMB187.1 million, RMB192.7 million, RMB219.0 million and RMB273.3 million, respectively, representing 31.4%, 28.4%, 18.2% and 16.1% of our total revenue for the same period, respectively.

Pricing

The revenue model of the Group's business is summarized as follows.

- *How medical institutions charge patients*. Generally, for different types of diagnostic testing, local governments in the PRC have promulgated different pricing protocols, which set out the ceiling price that the medical institution can charge individual patient per test. All the public medical institutions (primarily being non-profit medical institutions organized by the government) shall strictly follow the pricing set forth in the pricing protocols and all the non-public medical institutions (primarily being for-profit medical institutions organized by enterprises and other non-government institutions) shall set their prices with reference to the market prices based on market demand, which, in some cases, may be higher than the pricing protocol.

- *How we charge our medical institution customers.* We charge medical institution customers diagnostic service fees. Such diagnostic service fees represent a percentage, normally ranging from 5% to 40%, of the prices medical institution customers charge the individual patients. As such, although we are not directly bound by the national/provincial pricing protocols, these protocols will affect our pricing as they have set the ceiling price that the medical institutions can charge individual patients. In addition, for diagnostic testing services for medical institution alliances, the service fees we charge will be determined through arms' length negotiation based on the type of tests to be provided and the business scale of the medical institutions within the alliances and we generally charge higher diagnostic service fees of approximately 5% to 10% on top of the fees under diagnostic outsourcing services with reference to (i) the customers in diagnostic outsourcing services for the same medical specialty and with similar expected testing volume and (ii) the service package such as technical supports and daily assistance for operations provided to our customers.

We generally set service prices based on commercial negotiations with our customers. To maintain our market position and to compete effectively with our competitors, we price our services by considering the price of competing services in the diagnostic testing industry. In determining the level of our service fees we charge for our services, we normally consider a number of factors, including test type, our costs, local market conditions, expected testing volumes and customer type in determining such percentage. In addition, availability of public and private insurance coverage and insurers reimbursement policies may affect our financial conditions and results of operations. For details, see "Risk Factors—Risks Relating to Government Regulations—Availability of public and private insurance coverage and insurers reimbursement policies may affect our revenues, margins and results of operations".

RESEARCH AND DEVELOPMENT

We are committed to providing accurate and reliable diagnostic testing. Three of our operating subsidiaries, namely Yunkang Health, Guangzhou Daan and Chengdu Daan, have been recognized by the local provincial level municipal science and technology commission, finance bureau, and state and local tax bureaus as "high and new technology enterprises" and were further registered with the local tax authorities to be eligible for the preferential enterprise income tax rate of 15%.

In order to enhance the performance and stability of these systems, we have a dedicated R&D team focusing on improving the efficiency and regular maintenance of IT systems in relation to medical institution alliances. We may also establish research and development teams, which include other employees based on specific research and development projects, in order to improve our diagnostic techniques. As of the Latest Practicable Date, we had 90 employees primarily responsible for our research and development activities. These employees are primarily employees within our information technology team and technicians that are involved in the R&D for application of new diagnostic techniques. IT systems in relation to medical institution alliances are the primary channel for us to interact with member hospitals and manage diagnostic testing data.

Our research and development activities primarily focus on developing and maintaining IT systems that can improve the efficiency of information transmission and applying new diagnostic techniques to our business operations. For example, we partnered with a software company to jointly research and develop a new generation of clinical laboratory technology platforms to further our professional and standardized diagnostic services. The new generation of clinical laboratory technology platform will utilize cloud technology to store diagnostic testing data and enable medical institutions to have remote access to review the diagnostic testing data and reports for pathological analysis. Yunkang apps are our in-house developed apps for physicians and medical institutions. They consist of two free-of-charge apps, namely (i) Yunkang Doctor, which enables physicians to review the diagnostic testing reports issued by us; and (ii) Yunkang Medical Institution Report Review App, which enables medical institutions to review the diagnostic testing progress and diagnostic testing reports they sent us. Currently, Yunkang Doctor has over 768 users and Yunkang Medical Institution Report Review App has over 3,160 users.

In 2016, we cooperated with Sun Yat-sen University and established Yunkang Medical and Health Management College program to provide training on clinical and pathological diagnostics. This collaboration enables us to constantly attract and recruit talents for us and design specific curriculum offerings that can meet our recruitment needs. Under this arrangement, we are generally responsible for initial investments in relation to curriculum offerings and education equipment and in return, students from Yunkang College are encouraged to take internship with us and eventually join us after graduation. In 2020, 20% of Yunkang College's first graduating class joined us. We expect more graduates from Yunkang College to join us upon graduation to improve our talent reserve.

For the years ended December 31, 2018, 2019, 2020 and 2021, our research and development expenses were RMB38.2 million, RMB36.5 million, RMB33.4 million and RMB43.9 million, respectively. Our research and development expenditure primarily consisted of employee benefit expenses of our research and development staff, equipment operation expenses and cost of testing kits and raw materials that are used in our laboratory testing and amortization of our testing equipment.

LOGISTICS

We have established stringent protocol for our logistics practice and our logistic department is in charge of the transportation of test samples. Our logistics personnel will conduct a preliminary review when collecting the test samples, including inspection of the labels, inspection of sealing and inspection of the information of patients. They are also responsible for the control of temperature and humidity of the condition in which the test samples are stored throughout the transportation process and ensure the collection of test samples from medical institutions and delivery to our ICLs are strictly in accordance with our protocol. If our logistics personnel conclude that the test sample cannot satisfy our diagnostic testing requirement, we will request the hospital or medical institution to conduct a re-sampling. For test samples that contain infectious substances, we will label the relevant infectious substance on the testing tube and will perform sealing in accordance with our

internal protocol. For most of our medical institution customers which are located near our ICLs, we will arrange transportation from the medical institution customer to the respective ICLs. For medical institution customers distant from our ICLs, the test samples will be delivered by air freight or train depending on the type of diagnostic tests and the nature of the samples. Together with our self-developed bar code system, a bar code and an identification number will be assigned to each sample. The bar code contains the information of the type of the diagnostic test and the hospital department information, and is linked with the assigned identification number. Therefore, we are able to know the type of reagent to be used and type of test by scanning the bar code. By scanning the bar code at the delivery and testing, we are also enabled to track the samples collected from which exact hospital and the respective hospital department within the medical institution alliance. After the test is completed, medical institutions may use the assigned identification number to gain access to the testing report.

Certain test samples have a shorter shelf life of two weeks in a 2-8°C environment and others may have a longer shelf life, depending on nature of the test samples. We are able to maintain the activity and effectiveness of the testing samples during the transportation process (including both by air freight and by train) and the test samples will be kept in a temperature- and humidity-controlled container which is closely monitored by us. We have set up a real-time logistics monitoring system, enabling us to monitor the quantity, temperature and real-time location of each batch of test samples and it will alarm us if it identifies any testing samples are kept in an abnormal environment. Moreover, we have a pilot center in Guangzhou, China, for the implementation of the new *Pharmaceutical Cold Chain Logistics Industry Standard* (藥品冷鏈物流運作規範) issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中國國家質量檢驗檢疫監督管理局) ("**Cold Chain Logistics Standard**"). The Cold Chain Logistics Standard stipulates the basic requirements for cold chain transportation of pharmaceutical products. Our pilot center has established procedures and protocols that satisfy the Cold Chain Logistics Standard and all of our pharmaceutical cold chain logistics are conducted in accordance with such procedures.

QUALITY CONTROL AND ASSURANCE

Accuracy of diagnostic testing is at the core of our commitment to patient well being and hospital satisfaction. We believe that an effective quality management system is crucial to maintaining our high service quality.

To ensure that our services consistently meet high industry standards, regulatory requirements and patient satisfaction, we have established an independent quality assurance team. We have a team of over 20 specialists who have an average of over seven years of experience in the healthcare industry and extensive know-how of relevant regulatory requirements and quality standard procedures.

Our quality management encompasses all stages throughout the diagnostic testing process, from sample collection to results delivery. We have established internal policies and standard procedures, which follow national and international guidelines, to ensure accuracy and reliability. For examples, we regularly conduct safety inspections of our laboratories to

ensure the compliance of safety guidelines and we have developed testing processes and methodologies to support our data platform and logistics systems. We have also established a strategic relationship with CLSI since 2013, and have since then been the only laboratory collaborating with CLSI in China. We also follow ISO1518 and CAP Guidelines, which are widely recognized in medical operation services industry.

CLSI is a globally recognized not-for-profit standards development organization, whose standards are recognized by laboratories, accreditors and government agencies globally to improve medical laboratory testing. As its only partner in China as of the Latest Practicable Date, we comply with CLSI's testing standards and we are responsible for promoting CLSI's clinical standards in China. In January 2021, we successfully renewed our strategic cooperation relationship with CLSI for another five years. Key terms of our partnership agreement with CLSI are summarized as below:

- *Nature and Scope of the Service*. Pursuant to the partnership agreement, CLSI will provide us with corporate and affiliate membership, technical consulting and training and the non-exclusive right to translate and distribute selected works in order to improve the capabilities, quality and sustainability of medical laboratories in the PRC. We will be responsible for promoting CLSI's clinical standards in China.

- *Terms*. Our partnership agreement has a term of five years with an option for renewal upon expiration.

- *Payments*. Under the partnership agreement, we generally pay CLSI affiliate membership fees on a quarterly basis. The affiliate membership fees are generally determined based on arms' length negotiation between CLSI and us with reference to the annual fee CLSI normally charges for each membership site.

- *Termination*. We or CLSI may terminate the partnership agreement upon 30 days' prior notice upon the other party's uncured breach of the partnership agreement.

In 2018, 2019, 2020 and 2021, we paid CLSI a total amount of US$110,000 for the annual affiliate membership fees.

SUPPLIERS AND PROCUREMENT

During the Track Record Period, our major suppliers primarily consisted of suppliers of testing kits, raw materials, machinery and equipment and third-party marketing service providers. In addition, we also engage certain third-party laboratories as subcontractors to outsource a small portion of our testing services. The main purpose is to ensure the efficiency of our testing services and to save costs because it is time consuming and costly to build up a technology platform for a small portion of test samples. For the years ended December 31, 2018, 2019, 2020 and 2021, we engaged 25, 33, 39 and 35 subcontractors, respectively, and have maintained stable business relationships with our subcontractors with an average of approximately five years cooperation. As the first step, we review the relevant certificates of

the subcontractors to ensure their qualifications, which include business license, medical practice license and medical laboratories accreditations. Except for Da An Gene, our Directors confirm that all of our subcontractors are Independent Third Parties as of the Latest Practicable Date. Key terms of the service agreements with our subcontractors are summarized as below:

- *Term.* Our subcontractor agreements generally have a term of one year with renewal options.

- *Payment.* Under our subcontractor agreements, we are obliged to pay the subcontractors a service fee for the testing services performed based on arms' length negotiations. The service fee is determined based on the diagnostic testing prices as promulgated by the relevant authorities. We invoice and settle with the subcontractors on a monthly basis.

- *Service.* The subcontractor agreements set out the specific testing services the subcontractors are responsible for. The quality standard of the testing service is also set out in the agreement which is required to be in line with our internal guidelines.

- *Termination and Renewal.* Either party to the agreement has the right to terminate or renew the contract with 30 days' prior written notice.

In order to ensure the quality of services of these subcontractors, we have implemented a series of quality control measures, including (i) we require the potential subcontractors to provide their qualifications and licenses before entering into service agreements with them; (ii) we conduct examination on the quality control system of the subcontractors if we consider necessary and we only enter into service agreements with subcontractors that can pass such examination; (iii) we conduct annual review on all the qualified subcontractors and if we consider any subcontractor cannot satisfy our quality requirements, such subcontractor will be removed from our qualified subcontractor list; and (iv) if we consider the quality control system of certain subcontractors have room for improvement during annual review, we will work with them to improve the quality of their services.

To manage the prices of our testing kits, raw materials and other supplies, we entered into agreements with a term ranging from one to five years with our suppliers which will be reviewed and renewed upon the expiration of the relevant agreement. Our key suppliers are required to strictly follow our quality standards and are responsible for any quality defects that are directly caused by the substandard quality of the raw materials (including testing kits and reagents) supplied. Under our standard supplier contract, we have the right to return or exchange products if quality issues are discovered during inspection or use of the products. In order to ensure the quality of the reagents and consumables, we maintain a qualified supplier list and only procure reagents and consumables from qualified suppliers. We require each supplier to provide its qualifications and licenses and we may require them to provide testing report if necessary. If we consider there are quality issues for certain suppliers, we will discuss with the supplier and require them to improve their quality and we will terminate our relationship with such supplier if the supplier cannot rectify such quality issues.

We have maintained stable business relationships with our major suppliers for over five years on average. We primarily procure our pharmaceuticals, reagents and consumables for diagnostic testing from domestic suppliers. As the diagnostic tests we offered are primarily well-established diagnostic tests, generally there are several available domestic suppliers for the major types of pharmaceuticals, reagents and consumables we use. In addition, we may also shift to import suppliers if necessary to meet emerging market demand that domestic suppliers cannot meet. During the Track Record Period, we did not experience any material disputes with suppliers, difficulties in the procurement of raw materials, interruptions in our operations due to a shortage or delay of raw materials or significant fluctuations in raw material prices.

For the years ended December 31, 2018, 2019, 2020 and 2021, Da An Gene Group, our connected person was our largest supplier. Our purchase amounts from Da An Gene Group were RMB80.1 million, RMB52.4 million, RMB81.9 million and RMB226.5 million for the years ended December 31, 2018, 2019, 2020 and 2021, respectively, representing 15.4%, 9.9%, 11.7% and 22.1% of our total purchases for the same period, respectively. The increase in purchases from Da An Gene Group as a percentage of our total purchase in 2021 was primarily because of the increasing amount of reagents and consumables we purchased from Da An Gene Group in 2021 mainly attributable to the increased number of COVID-19 tests we conducted in the same period. In each of the years ended 2018, 2019 and 2020, our purchase amount from our five largest suppliers accounted for less than 30% of our total purchases. For the year ended December 31, 2021, our purchase amount from our five largest suppliers amounted to RMB324.4 million, representing 33.4% of our total purchases. The following table illustrates our top five suppliers for the year ended December 31, 2021.

Rank	Supplier	Transaction Amount	% of Total Purchase Amount	Length of Business Relationship	Service/Products Procured
		(RMB in thousands)	*(%)*		
For the year ended December 31, 2021					
1	Da An Gene Group	226,480	22.1	Since 2011	Reagents, consumables and equipment and diagnostic outsourcing
2	Supplier A	42,415	4.1	Since 2015	Sales and marketing service
3	Supplier B	29,857	2.9	Since 2021	ICL decoration and related equipment
4	Supplier C	24,062	2.3	Since 2020	Reagents and consumables
5	Supplier D	19,614	1.9	Since 2011	Reagents, consumables and equipment
	Total	**342,428**	**33.4**		

During each year of the Track Record Period, two of our five largest customers or suppliers were also our suppliers or customers during the same period.

- Da An Gene, our largest supplier in 2018, 2019, 2020 and 2021, was also our customer during the same period. Revenue from Da An Gene represented less than 0.2% of our revenue for each same period. We provided diagnostic outsourcing services to employees of Da An Gene while we purchased certain testing equipment and reagents from them. Negotiations of the terms of our sales to and purchase from Da An Gene were independent and the sales and purchases were neither inter-conditional with each other.

- One of our five largest customers in 2018 and 2019 was also our supplier during the same periods. This customer/supplier is a PRC company primarily engaged in genetic disease diagnostic testing services. We were collaborating with this company in relation to certain genetic disease diagnostic testing projects where we were responsible for diagnostic test services and the customer/supplier is responsible for data management and analysis. As part of the project, from time to time, the customer and us may collect test samples and will pay the other party the respective service fees. In 2018 and 2019, our procurement from this supplier represented 1.0% and 1.5% of our total purchases for the respective year. Negotiations of the terms of our sales to and purchase from this customer/supplier were determined with reference to the service fee each party charges third-party customers. Sales and purchases were not inter-conditional with each other.

Our Directors have confirmed that services purchased or products purchased from these suppliers were not sold to them and the terms of the transactions with such customers were entered through arms' length negotiations and in normal commercial terms.

Save for Da An Gene, as of the Latest Practicable Date, none of our Directors, their associates or any shareholders which, to the knowledge of our Directors, owned more than 5% of the issued share capital of our Company as of the Latest Practicable Date, had any interest in any of our five largest suppliers during each year of the Track Record Period.

INTELLECTUAL PROPERTY

We recognize the importance of intellectual property rights to our business and are committed to the development and protection of our intellectual property rights. We actively seek patent protection for our products. We have developed a significant portfolio of intellectual property rights to protect our technologies and products. As of the Latest Practicable Date, we had registered 31 patents and 209 trademarks (including the trademark 云康 that we use as the brand name for our business operations) in China among which 18 are utility patents, 12 are invention patents, and one for appearance design. As of the same date, we had filed 9 patent applications, which were pending approval in China. Our intellectual properties mainly consist of the new methodologies and technologies for diagnostic testing. We have successfully registered several methodologies regarding to diagnostic detection methods in various therapeutic areas, for example, the method for detecting apolipoprotein E genotypes

and the method for detecting single point mutation of gene. Additionally, the new technologies we developed mainly consist of innovative computer systems, which includes but not limited to the remote image reading agent service system as well as an ankylosing spondylitis remote consultation sharing platform. For details, please see "Appendix IV—Statutory and General Information—B. Further Information About Our Business—2. Intellectual property rights."

As of the Latest Practicable Date, we owned the following registered patents which we consider to be or may be material to our business:

No.	Patent	Nature	Place of Registration	Patent Number	Registered Owner	Expiry Date	Status
1	A method for detecting single point mutation of gene with TaqMan probe quantitative polymerase chain reaction technology	Invention	PRC	ZL200710026606.2	Guangzhou Daan	January 30, 2027	Effective
2	Human parainfluenza virus typing and quantitative detection kit	Invention	PRC	ZL200810027106.5	Guangzhou Daan	March 31, 2028	Effective
3	Respiratory syncytial virus real-time fluorescent PCR detection kit	Invention	PRC	ZL200810028076.X	Guangzhou Daan	May 14, 2028	Effective
4	Specimen box	Utility	PRC	ZL201420040128.6	Yunkang Industry, Guangzhou Daan	January 22, 2024	Effective
5	Dried blood piece collection device	Utility	PRC	ZL201320544714.X	Guangzhou Daan, Yunkang Industry	September 13, 2023	Effective
6	Medical inspection information unified collection equipment	Utility	PRC	ZL201420774811.2	Yunkang Health, Yunkang Industry, Guangzhou Daan, Chengdu Daan	December 9, 2024	Effective
7	Medical inspection information collection system	Utility	PRC	ZL201420774844.7	Yunkang Health, Yunkang Industry, Guangzhou Daan, Chengdu Daan	December 9, 2024	Effective
8	Drip holder	Utility	PRC	ZL2014202653915	Yunkang Industry, Guangzhou Daan	May 22, 2024	Effective
9	Auxiliary force-receiving mechanism and inspection device containing the auxiliary force-receiving mechanism	Invention	PRC	ZL201510218422.0	Guangzhou Daan, Chengdu Daan, Shanghai Daan, Yunkang Industry	April 30, 2025	Effective

No.	Patent	Nature	Place of Registration	Patent Number	Registered Owner	Expiry Date	Status
10	Auxiliary force-receiving mechanism and inspection device containing the auxiliary force-receiving mechanism	Utility	PRC	ZL201520277622.9	Guangzhou Daan, Chengdu Daan, Shanghai Daan, Yunkang Industry	April 30, 2025	Effective
11	Drying board	Utility	PRC	ZL201620772572.6	Chengdu Daan, Guangzhou Daan, Shanghai Daan, Hefei Daan	July 21, 2026	Effective
12	A cleaning device for medical equipment	Invention	PRC	ZL201510027096.5	Chengdu Daan	January 20, 2035	Effective
13	An intelligent safety management system for hospital case files	Invention	PRC	ZL201410626633.3	Yunkang Health	November 10, 2034	Effective
14	Detection method of drug resistance mutation in hepatitis B virus genome	Invention	PRC	ZL200410052531.1	Shanghai Daan	December 7, 2024	Effective
15	Picture classification system	Utility	PRC	ZL201922235021.2	Guangzhou Daan	December 13, 2029	Effective
16	Sample tube adapter	Utility	PRC	ZL201921294948.7	Guangzhou Daan, Yunkang Health, Chengdu Daan, Yunkang Industry, Shanghai Daan	August 9, 2029	Effective
17	Slide making device	Utility	PRC	ZL201921288397.3	Guangzhou Daan, Yunkang Health, Chengdu Daan, Yunkang Industry, Shanghai Daan	August 9, 2029	Effective
18	Test tube rack and its connecting parts	Utility	PRC	ZL201921289508.2	Guangzhou Daan, Yunkang Health, Chengdu Daan, Yunkang Industry, Shanghai Daan	August 9, 2029	Effective
19	Sharps collection box and its cover	Utility	PRC	ZL201921300022.4	Guangzhou Daan, Hefei Daan, Yunkang Health, Chengdu Daan, Yunkang Industry, Shanghai Daan	August 12, 2029	Effective

No.	Patent	Nature	Place of Registration	Patent Number	Registered Owner	Expiry Date	Status
20	Test tube numbering equipment	Utility	PRC	ZL201921302053.3	Guangzhou Daan, Hefei Daan, Yunkang Health, Chengdu Daan, Yunkang Industry, Shanghai Daan	August 12, 2029	Effective
21	Tissue wax block slice auxiliary device and tissue wax block slicer	Utility	PRC	ZL201921289542.X	Guangzhou Daan, Yunkang Health, Chengdu Daan, Yunkang Industry, Shanghai Daan	August 9, 2029	Effective
22	Test tube capping device	Utility	PRC	ZL201921298930.4	Guangzhou Daan, Hefei Daan, Yunkang Health, Chengdu Daan, Yunkang Industry, Shanghai Daan	August 12, 2029	Effective
23	Computer with graphical user interface to motivate employees	Appearance design	PRC	ZL201930488727.2	Guangzhou Daan	September 5, 2029	Effective
24	A specimen box with independent temperature division zone	Utility	PRC	ZL201922015036.8	Guangzhou Daan, Zhejiang Wugu Saxin Cold Chain Technology Co., Ltd.	November 20, 2029	Effective
25	High-throughput screw biological information analysis method and device, equipment and storage medium	Invention	PRC	ZL201710619197.0	Guangzhou Daan, Chengdu Daan	July 26, 2037	Effective
26	Multifunctional sample storage box	Utility	PRC	ZL202021591131.9	Guangzhou Daan	August 4, 2030	Effective
27	Resource access method, device, computer equipment and storage medium	Invention	PRC	ZL201910150685.0	Guangzhou Daan	February 28, 2039	Effective
28	A kind of influenza virus typing detection kit	Invention	PRC	ZL201010229496.1	Guangzhou Daan Gene Co., Ltd., Chengdu Daan	April 2, 2034	Effective
29	A kit for detection of herpes simplex virus type I by fluorescent PCR	Invention	PRC	ZL201210014382.4	Guangzhou Daan Gene Co., Ltd., Guangzhou Daan	October 8, 2034	Effective
30	Incubation box	Utility	PRC	ZL202121255343.4	Guangzhou Daan, Yunkang Group	February 1, 2032	Effective
31	Chromosome C banding method	Invention	PRC	ZL201911040181.X	Chengdu Daan, Yunkang Co., Ltd., Shanghai Daan	March 18, 2042	Effective

We have entered into confidentiality agreements with all of our employees and non-competition agreements with our senior management and certain key members of our research and development team and other employees who have access to trade secrets or confidential information about our business. Our standard employment contract, which we used to employ each of our employees, contains a confidentiality clause, under which we own all the rights to all inventions, technology know-how and trade secrets derived during the course of such employee's work.

As of the Latest Practicable Date, we were not involved in any proceedings in respect of, and we had not received notice of any claims of infringement of any intellectual property rights, in which we may be a claimant or a respondent.

EMPLOYEES

As of the Latest Practicable Date, we had 2,389 full-time employees, 739 of which were stationed at on-site diagnostic centers and 720 of which were stationed at our ICLs. All of our employees are located in China. We believe that well-educated employees with extensive industry experience are essential to our overall business operation and the research and development of our services. The following table sets forth the number of our employees by function as of the Latest Practicable Date.

	Number of employees
Management	152
Sales and marketing	266
Medical technician	1,459
Operation	255
Research and Development	90
Logistics	167
Total	2,389

We recruit our personnel primarily through recruiting websites, recruiters and job fairs. We enter into employment contracts with our employees to cover matters such as wages, benefits and grounds for termination. We make contributions to social insurance and housing provident funds as required by the PRC laws and regulations.

All of our new employees are required to attend orientation and training programs so that they may better understand our corporate culture, structure and policies, learn relevant laws and regulations, and raise their quality awareness. In addition, from time to time, we invite external experts to provide training to our management personnel to improve their relevant knowledge and management skills.

We have established a labor union that represents employee with respect to the promulgation of bylaws and internal protocols. During the Track Record Period, we did not experience any material labor disputes or strikes that may had a material and adverse effect on our business, financial condition or results of operations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")

Governance on ESG Matters

We agree with the growing consensus that top-down oversight of ESG is a marker of a Company's commitment to ESG business integration.

The Board has the collective and overall responsibility for establishing, adopting and reviewing the ESG vision, policy and target of our Group, and evaluating, determining and addressing our ESG-related risks.

In order to effectively implement the relevant work of ESG management, we have established an ESG working group, comprising representatives from our various departments (e.g. human resources, administration, diagnostic testing laboratory, information technology, and marketing).

The ESG working group reports to the Board and oversees the Group's ESG strategies, daily operations and risk management. We will adopt a set of ESG policies based on the applicable laws and regulations, which set forth our internal policies and measures in respect of, among other things, environmental protection, labour protection, corporate governance and code of ethics upon [**REDACTED**].

Impact of ESG-related risks and opportunities

Our operations and facilities are subject to extensive environmental protection, health and safety laws and regulations, which govern, among other things, the generation, storage, handling, use and transportation of hazardous materials and the handling and disposal of hazardous and biohazardous waste generated at our facilities. See "Regulations" for details.

We have adopted specific environmental protection policies to make our operations more energy efficient and environmentally friendly and to ensure effective compliance with applicable PRC environmental laws and regulations. To ensure that our operations are in compliance with applicable laws and regulations, we have also established a series of policies and procedures with respect to health and work safety, which primarily include policies regulating safe production, operation of specialized equipment and personnel, dangerous production activities, hazardous materials, fire safety, detection and management of safety risks and on-site safety risk inspection. We conduct periodic and annual training for employees to strengthen their awareness and knowledge on environmental protection, safety procedures and accident prevention.

For medical waste, the key to effective management is segregation and identification of waste. We have sorted the medical waste into yellow colour-coded plastic bags and containers. Appropriate containers and bag holders are placed in locations where particular categories of waste may be generated. Our staff will ensure that medical waste bags are tightly sealed and properly labelled before sending to the storage bin. We have engaged professional third-party qualified companies for medical waste handling and disposal.

Our medical laboratory wastewater is discharged into the wastewater treatment plant which belongs to the industry zone. We have monitored wastewater according to the legal requirements to ensure pollutant concentration in discharged wastewater is compliant.

In terms of major climate change related impact that may affect us, we make reference to the Task Force on Climate-Related Financial Disclosures ("**TCFD**") framework to evaluate the magnitude of the climate impact. We have implemented contingency plans to safeguard us against any climate change or extreme weather conditions like typhoon that would materially and adversely affect our business and operations. We have defined low transitional risks to the Group as the relevant regulations will be in place within the next few years. Climate change is also an opportunity to the medical operation service provider especially we provide diagnostic outsourcing services and diagnostic testing services for medical institution alliances. Under this business model, medical institutions can rely on our services to centralize the resources and deliver the test samples to our ICLs and/or on-site diagnostic centers to conduct diagnostic tests for their patients in order to save extra energy consumption by establishing a separate diagnostic center at their respective sites.

As of the Latest Practicable Date, we had not experienced any material impact on our business operations or financial performance as a result of climate change or extreme weather conditions.

On social aspect, despite the advance changes made for achieving a high degree of quality and safety of diagnostic testing, ensuring customer satisfaction remains a constant challenge. We aim to become a patient-oriented partner that is providing high quality analytical information for our medical institution customers. We need to engage with our clinical colleagues in multidisciplinary teams to understand our customers requirement. We have to work together with medical institutions on guidelines and share our valuable knowledge about the testing process.

Another social aspect risk we identified is human capital risk. It continues to pose challenges for our industry. Attracting and retaining the best talent takes discernment and time. To overcome the challenge, we offer competitive package and enhance employees' sense of belonging and improving their benefits on an ongoing basis.

ESG Measures

We have adopted the following measures to identify, assess, manage and mitigate ESG risks:

(1) We have set up ESG working group to identify and assess potential ESG risks.

(2) We engage with third-party medical waste disposal companies to handle certain of our medical waste. We regularly monitor and evaluate the risks of occupational hazards at our medical laboratories.

(3) We are committed to providing a rewarding work environment that encourages the collaborations and offering our employees to learn, grow and succeed at work. The commitment is incorporated in our Group Human Resources Performance Management Approach ("雲康集團績效管理辦法").

(4) We collect feedback from our customers to improve our laboratory process and our productivity, optimize efficiency, and improve the quality of our service.

METRICS AND TARGETS

Greenhouse Gas

Greenhouse gas ("GHG") emissions (or "carbon emissions") are closely related to climate change, which presents businesses with both long-term risks and opportunities. To better understand, quantify and manage the carbon and climate change related impacts, risks, and opportunities in our investments, it is integral to measure and disclose our carbon footprint as a first step in our ESG journey.

GHG emissions are produced by us mainly due to the use of electricity during our daily operation. The table below sets forth the quantitative calculation of GHG emissions in 2021 of our head office in Guangzhou.

Greenhouse Gas Emissions	**(tonnes CO2 equivalent)**
Scope 1 Direct GHG Emissions	0
Scope 2 Indirect GHG Emissions (electricity purchased)	2,004.77
Total GHG Emissions	2,004.77

Our current target is to gradually adopt more environmentally friendly measures and reduce our energy consumption in our daily operation. The data will serve as a foundation of developing more relevant energy reduction strategies and setting appropriate reduction targets for our company in the future.

Waste Treatment

In line with our environmental commitments, we have engaged professional third-party qualified companies for medical waste handling and disposal so as to minimize the impact on the environment. In 2021, the waste disposal of medical solid waste for our head office in Guangzhou amounted to 53.3 tons.

Resource Consumption

The table below sets forth the resource consumption of our head office in Guangzhou in 2021.

Resource Consumption	
Electricity	2,492,873.6 kWh
Water	10,759.8 m^3

We strive to use resources effectively and minimize the discharge of wastes. In the ordinary course of business, we actively engage employees on the importance of energy conservation.

- Keep indoor air-conditioning temperature at 26°c during summer;
- Encourage staff to switch office equipment, such as printers and computers, to energy saving mode (the equipment will enter the sleep mode under the standby condition)

Health and Safety

The table below sets forth the health and safety data of our head office in Guangzhou in 2021.

Work related fatality	**0**
Lost days due to work injury	**0**

During the Track Record Period, our total costs of compliance with environmental protection and health and safety law and regulations were immaterial. We expect that our costs of compliance with environmental protection and health and safety law and regulations will remain at similar level in the foreseeable future.

During the Track Record Period, we have not been subject to any administrative penalties relation to safety production which would have a material adverse effect on our financial position or results of operations as a whole.

PROPERTY

Owned Property

As of the Latest Practicable Date, we owned the following properties in China. We had obtained all the land use right certificates and/or building ownership certificate for these premises.

- *Guangzhou*. We owned one parcel of land with an area of approximately 6,251 sq.m. in Guangzhou. We intend to use this premise as our new headquarters. For details, see "Business—Business Strategies—Continue to upgrade and enhance our operational capabilities."

- *Shanghai*. We owned one parcel of land with an area of approximately 34,284 sq.m. and one parcel of real property with an area of approximately 4,040.9 sq.m. in Shanghai, which is used for our ICL in Shanghai.

Leased property

As of the Latest Practicable Date, we leased a total of 59 properties in Guangzhou, Foshan, Kunming, Nanchang, Chengdu, Hefei, Shanghai, Dongguan, Jinan, Shenzhen, Guiyang, Zhuhai, Nanning, Huizhou and Shantou, with an aggregate area of 50,645.74 sq.m. Except for one that is leased from Da An Gene, all the other leases are leased from Independent Third Parties. These properties are used as our offices, ICLs and for other operating activities.

Of the abovementioned leased properties, lessors of 36 properties have not obtained the Planning Certificate of Construction Project (建設工程規劃許可證). As advised by our PRC Legal Advisers, under the relevant PRC laws and regulations, these leases may be held void if the lessors did not obtain the Planning Certificate of Construction Project before entering into lease agreements. During the Track Record Period and as at the Latest Practicable Date, there had been no incidents arising from the safety conditions of the said properties. Our Directors are of the view that the likelihood that our business or results of operations would be materially and adversely by the title defects is very remote, considering that (i) as of the Latest Practicable Date, we had not received any penalty, objection, inquiry or investigation from the local authorities with respect to such properties; (ii) these properties are primarily used as offices and employee canteen and therefore are not crucial to our diagnostic testing services; and (iii) there are abundant unoccupied properties and we believe we would be able to relocate to a different site relatively easily if such leases are held void by the local authorities.

As of the Latest Practicable Date, we had not completed lease registration with the relevant regulatory authorities for 51 leases. Our PRC Legal Advisers are of the view that the non-registration of lease agreements will not affect the validity of such lease agreements, but the relevant local housing administrative authorities can require us to complete registrations within a specified timeframe and we may be subject to a fine between RMB1,000 and RMB10,000 per lease for any delay in making these registrations. Therefore, we have the right

to use such properties in accordance with the lease agreement but we may be subject to the risks of fines if the lease registration is not completed as required by the relevant local housing administrative authorities. As of the Latest Practicable Date, we were not subject to any penalties arising from the non-registration of the lease agreements.

According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this document is exempted from compliance with the requirements of section 342(1)(b) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance and paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which require a valuation report with respect to all our Group's interests in land or buildings, for the reason that, as of December 31, 2020, we had no single property with a carrying amount of 15% or more of our total assets.

INSURANCE

We maintain insurance policies that are required under PRC laws and regulations as well as based on our assessment of our operational needs and industry practice. The insurance we maintain primarily include medical liability insurance, fixed asset insurance and directors liability insurance. We maintain medical liability insurance for the outpatient clinic, which covered all the doctors, pharmacist and nurses at the outpatient clinic. The maximum claim amount under such insurance is RMB1 million in aggregate and RMB300,000 per incident. In addition, we also maintain medical liability insurance for certain type of genetic testings. The maximum claim amount under such insurance is RMB400,000 per incident. In line with industry practice in the PRC, we have elected not to maintain certain types of insurance, such as business interruption insurance or key man insurance. Our Directors consider that our existing insurance coverage is sufficient for our present operations and in line with the industry practice in the PRC. See "Risk Factors—Risks Relating to Our Operations—Our insurance may not sufficiently cover, or may not cover at all, losses and liabilities we may encounter during the ordinary course of operation" for details.

LICENSES AND PERMITS

We are required to obtain and renew certain certificates, permits and licenses for providing our services. See "Regulations" for more information about material certificates, permits and licenses required for our business operations in China. For each of our ICLs and the outpatient clinic we operate, we need to obtain the Practice License for Medical Institution from the local health and family planning commission and the license specifies the medical specialties it have (diagnostic testing or medical services). For details of the licenses we obtained in relation to our ICLs, see "—Our Services—Diagnostic Outsourcing Services—Our Independent Clinical Laboratories ("ICLs")." In addition, our Practice License for Medical Institutions for our outpatient clinic has a valid period of five years and its current expiration date is February 9, 2024. Our PRC Legal Adviser has advised us that, as of the Latest Practicable Date, we had obtained all requisite licenses, approvals and permits from, and

completed registrations with the relevant government authorities that are material for our current business operations in the PRC pursuant to the relevant laws and regulations or the requirements of the competent authority.

During the Track Record Period, we had not experienced any material difficulty in renewing the required certificates, permits or licenses, and we had not been subject to any material administrative penalties relation to maintenance and renewal of our material certificates, permits and licenses.

DATA PRIVACY AND PROTECTION

The security and protection of our patients' personal information in accordance with the PRC Cyber Security Law is one of our highest priorities. Our comprehensive internal policies on protecting data security are based on ISO/IEC27001:2013 standards. We have implemented policies to comply with relevant laws and regulations on data protection and privacy in our business operations and we seek to ensure the data that we collect are not misappropriated or misused. We continuously update our data protection and privacy measures to strengthen data protection, including data monitoring, firewall systems, data encryption technology, system login protection and data backup. As of the Latest Practicable Date, we had not received any claim from third parties in relation to data privacy breach. Set forth below are the details of our data security policies:

- *Data security committee.* We have established a data security committee consisting of employees from different departments. Our data security committee is mainly responsible for the overall information security management work, promoting the implementation of information security work and formulating information security policies and information security management goals. The implementation of new products and services that involves access to or processing of personal data is subject to assessment and approval procedures by our data security committee.

- *Comprehensive internal policies*. At the corporate level, we have established policies such as employee handbooks and information security management systems which stipulate the standardized procedures for the management of security data and potential risks. At the department level, each department has formulated specific departmental rules and regulations based on its own operational needs. In particular, the departments with access to the data processing platform have put in place more strict requirements on the authorization and operation of data processing. We also regularly organize presentations and training sessions related to data security to strengthen employees' awareness of data security compliance on both corporate level and department level.

- *Data access and usage*. We have adopted and implemented a robust internal control system focusing on data security and personal information protection. This includes our policies regarding data security, management of data access and data classification and categorization. Our internal control protocols cover various

aspects of data processing including data collection, data transportation, data storage security, data backup and recovery and proper use of data. We manage access to personal data based on strict necessity and maintain records of data access. All of our employees are required to sign a confidentiality agreement and for those who are authorized to access to confidential information, they are also required to login with double secured passwords. We require all of our employees to comply with our internal policies and protect privacy and personal information, and we strictly prohibit unauthorized or improper collection or use of such data or personal information.

- *Enforcement of data privacy and protection policy*. To obtain patient data for medical purpose or requests from our clients, the relevant employee is required to submit an application for internal review and obtain a temporary access approval. Access to and operation of patient data will be logged and monitored and subject to review. Abnormal access and operation will trigger an automatic warning or alert from our data platform. Our data security committee will investigate the event in a timely manner if the data platform sends out any automatic warning or alert and evaluate the impacts. We take appropriate security measures against any abnormal or suspicious requests or behaviors if the automatic warning or alert signals any real problems. In addition, we require our employees to acknowledge and sign confidentiality agreements before they receive any data, and all data analyzed for specific projects or requests are encrypted. We have the right to dismiss any employee if they illegally misuse or leak patient data or cause any damage to us or the patients and may also pursue further legal proceedings against them. We prohibit employees from storing any work-related documents, files or data on unauthorized servers or personal computers.

In 2021, the PRC governments enacted several laws and regulations in relation to data security and personal information protection. For details, see "Regulations—Regulations Relating to Data Security and Personal Information Protection." Although we, as a diagnostic testing service provider in China, do not directly collect personal information from individuals or process personal data, due to the nature of certain diagnostic tests (such as certain genetic tests), we may obtain certain personal information, such as gender, age and blood type, for the purpose of performing these diagnostic tests and therefore we may have limited access to personal information provided by our clients, namely medical institutions, who ultimately control and use individuals' data. We do not directly collect personal information that can identify individual patients (e.g. name and address) unless they are necessary for the diagnostic tests. However, we may have limited access to such information only if the hospital, who normally collects and is in possession of such information for treatment and diagnostic purposes, provides to us. As such, we may be subject to these recently enacted laws and regulations. Considering that we do not directly collect or store the abovementioned personal information and we only have limited access to such personal information to the extent necessary for these diagnostic tests, our Directors are of the view that these newly-enacted laws do not have a material and adverse impact on our business and operations. Our PRC Legal Advisors are of the view that, we have not been subject to any penalties or claims for violating

the applicable PRC laws and regulations and we are in compliance with these laws and regulations in all material aspects. For details, see "Risk Factors—Risks Relating to Our Operations—Our business is subject to a variety of laws, rules, policies and other obligations regarding data protection."

COMPETITION

According to Frost & Sullivan, with the enactment of favorable policies and growing awareness of healthcare in China, China's medical operation service market has experienced rapid growth, increasing from RMB11,739.2 million in 2016 to RMB30,694.9 million in 2020 at a CAGR of 27.2%. It is expected that China's medical operation service market will reach RMB47,946.1 million in 2025 at a CAGR of 9.3% from 2020. In 2020, we had a market share of 3.7% in China's medical operation service market in terms of revenue.

China's diagnostic outsourcing service market is highly fragmented, with over 800 market players currently. According to Frost & Sullivan, the size of China's diagnostic outsourcing service market has experienced rapid growth, growing from RMB11,121.6 million in 2016 to RMB28,494.0 million in 2020. We had a market share of 3.0% in China's diagnostic outsourcing service market in terms of revenue in 2020, according to the same source. The five largest market players in China's diagnostic outsourcing service accounted for approximately 60% of the entire market in terms of revenue in 2020.

The diagnostic testing services for medical institution alliances market is highly concentrated, with the seven largest market players accounting for a market share of approximately 93.7% and the largest market player accounting for a market share of approximately 68.6%, in terms of revenue in 2020. In the same year, the market size of diagnostic testing services for medical institution alliances in China was RMB2,200.9 million, compared to a market size of RMB617.7 million in 2016, showing a CAGR of 37.4% from 2016 to 2020. In 2020, we had a market share of 12.5% in China's diagnostic testing services for medical institution alliances market in terms of revenue.

The growing number of medical institution alliances in China has created significant opportunities for medical operation service providers in terms of diagnostic testing services for medical institution alliances, which is expected to significantly drive the future growth of China's medical operation service market. The market size of China's diagnostic testing services for medical institution alliances is expected to grow to RMB5,903.4 million in 2025 at a CAGR of 21.8% from 2020 to 2025, according to Frost & Sullivan. It is faster than China's diagnostic outsourcing service market, which is expected to grow to RMB42,042.7 million in 2025 at a CAGR of 8.1% from 2020 to 2025, according to the same source.

Although the market leader in China's medical operation service market has already captured a significantly larger market share, we believe we can capture the market demand and increase our market share considering below aspects:

(i) With respect to diagnostic outsourcing service market, currently ICLs in China are significantly under-penetrated and there are only 1,800 ICLs in China in 2020, as compared to 6,800 ICLs in the United States. As such, even if medical institutions would tend to engage ICLs for professional and standardized diagnostic testing services, it is hard for them to find qualified ICLs nearby and therefore they have to conduct diagnostic tests themselves, or rely on Class II/III hospitals for diagnostic testing. Accordingly, there is significant growth potential for China's diagnostic outsourcing service market.

(ii) With respect to the diagnostic testing services for medical institution alliances market, we have experienced rapid growth during the Track Record Period, assisting in establishing 32, 53 and 68 on-site diagnostic centers in 2018, 2019 and 2020, respectively, which represented approximately 21%, 45% and 72% of the newly established on-site diagnostic centers of the total market in China for the corresponding year, according to Frost & Sullivan. In 2021, we also assisted in establishing 76 on-site diagnostic centers. We believe we will continue to expand our on-site diagnostic center network, which will enable us to capture a larger market share in China's diagnostic testing services for medical institution alliances market.

(iii) Even if the market leader has already captured a significant market share, several regions, in particular lower-tiered cities in these regions, in China still lack penetration of qualified ICLs or on-site diagnostic centers, for example, Central China. Further, although several regions, such as Southern China and Eastern China have qualified ICLs or on-site diagnostic centers, the medical operation service market is significantly under-served in light of the large number of medical institutions in these regions. As such, we plan to deepen our penetration in these areas where the current market leader does not have sufficient presence, and gradually expand to other areas in China to capture a larger market share in the future.

For details, see "Industry Overview."

LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

We may be involved in legal proceedings in the ordinary course of business from time to time. During the Track Record Period, neither we nor any of our Directors were involved in any litigation, arbitration or administrative proceedings, which had a material adverse impact on our business, financial condition or results of operations. As of the Latest Practicable Date, we were not aware of any pending or threatened litigation, arbitration or administrative proceedings against us or our Directors, which would have a material and adverse impact on our business, financial condition or results of operations.

Social Insurance and Housing Provident Funds

Background and Reasons for Non-compliance

During the Track Record Period, we did not make full contribution to social insurance and housing provident funds for certain employees in accordance with the relevant PRC laws and regulations. We did not make full social insurance and housing provident fund contributions for these employees primarily because the lack of experience of our human resources personnel who did not fully understand the relevant requirements of the relevant PRC laws and regulations, and the preference of many of our employees not to contribute to such fund.

Legal Consequences

As advised by our PRC Legal Advisers, the relevant PRC authorities may require us to pay the outstanding social insurance contributions within a stipulated deadline and pay an overdue charge equal to 0.05% of the outstanding amount for each day of delay. If we fail to pay the outstanding social insurance contributions within the prescribed period, we may be liable to a fine of one to three times the amount of the overdue payment. In case we fail to make payments of outstanding housing fund contributions within the specified timeframe, we may be subject to an order from the relevant people's courts to make such payment. As of the Latest Practicable Date, to the best knowledge of our Company, we were not aware of any complaint filed by our employees regarding our social insurance and housing provident fund contribution.

Our Directors are of the view that such non-compliance would not have a material and adverse effect on our business and results of operation, considering that (i) as of the Latest Practicable Date, we had not received any notification from relevant PRC authorities requiring us to pay shortfall or penalties with respect to social insurance and housing provident funds; (ii) we had not been subject to any material administrative penalties during the Track Record Period and up to the Latest Practicable Date; (iii) we were not aware of any material employee complaints nor were involved in any material labor disputes with our employees with respect to social insurance and housing provident funds; (iv) with respect to social insurance contribution, as advised by our PRC Legal Adviser, considering the facts stated above, the likelihood that we are subject to centralized collection of historical arrears and any material penalties due to our failure to provide full social insurance contributions for our employees is remote, and such non-compliance will not have a material adverse effect on our financial condition or results of operations as a whole and the [**REDACTED**]; (v) we have made provisions of RMB12.2 million, RMB14.6 million, RMB4.2 million and RMB15.8 million (representing the full amount of our social insurance and housing provident fund contribution shortfall in each period) for the social insurance and housing provident fund contribution shortfall in 2018, 2019, 2020 and 2021, respectively; and (vi) we have obtained an indemnification undertaking from Mr. Zhang Yong, pursuant to which Mr. Zhang Yong agreed to indemnify us against any claims, fines, penalties and other liabilities arising from such non-compliances.

Internal Control and Remedial Measures

We have taken the following rectification measures to prevent future occurrences of such non-compliances:

- *Training*. Strengthen legal compliance training to our employees responsible for compliance matters, finance and human resources;

- *Policy.* Formulate an internal control policy with respect to social insurance and housing provident fund contribution in compliance with relevant PRC laws and regulations, which we have started to implement;

- *Review and record-keeping.* Designate our human resources staff to review and monitor the payment status on a monthly basis;

- *Increasing awareness of development in law.* Regularly keep abreast of latest developments in PRC laws and regulations in relation to social insurance and housing provident funds; and

- *External consultation.* Consult external PRC legal counsel for advice on relevant PRC laws and regulations.

We started to adopt the enhanced internal control measures in January 2021. In addition, we undertake to make timely payments for the deficient amount and overdue charges, as soon as requested by the competent government authorities. We also plan to adjust payment amount of social insurance and housing provident fund for our employees. We started to re-comply with the relevant PRC laws and regulations in July 2021 when the annual basis for social insurance and housing provident fund contribution was updated, which, according to the local regulations and policies, were the earliest practicable time to make such adjustment for all the employees. For details of the relevant risks, see "Risk Factors—Risks Relating to Our Operations—We may be subject to additional contributions of social insurances and housing provident funds and late payments and fines imposed by relevant governmental authorities."

Save as disclosed in the section headed "—Social Insurance and Housing Provident Funds," we are advised by our PRC Legal Advisers that, during the Track Record Period and as of the Latest Practicable Date, we had complied with relevant PRC laws and regulations in all material respects.

RISK MANAGEMENT AND INTERNAL CONTROL

We are subject to various risks during our operations. For details, see "Risk Factors." We have established a consolidated risk management system and relevant policies and procedures, which we consider suitable for our business operations. Our policies and procedures are aimed at managing and monitoring our business performance. We have implemented Yunkang Overall Risk Management Measures (雲康全面風險管理辦法) to identify and prevent risks associated with our business operations. The Board is responsible for overseeing our Group's risk management activities. Each operating subsidiary within our Group shall appoint its internal risk management roles. We will also identify and analyse potential risks that may be involved in our business and enact procedures and protocols to prevent such risks.

To monitor the continuous implementation of risk management policies and corporate governance measures after the [**REDACTED**], we have adopted or will continue to adopt, among other things, the following risk management measures:

- establish an audit committee to review and supervise our overall risk related to our business operations. Our Audit Committee consists of three members: Mr. Xie Shaohua, chairman of the committee, Mr. Yu Shiyou and Dr. Guo Yunzhao. For the qualifications and experiences of these members, see "Directors and Senior Management;"

- provide regular anti-corruption and anti-bribery compliance training for senior management and employees in order to enhance their knowledge of and compliance of applicable laws and regulations;

- adopt various policies to ensure the compliance with the Listing Rules, including but not limited to policies in respect of risk management, connected transactions and information disclosure; and

- arrange our Directors and senior management to attend training seminars on Listing Rules requirements and the responsibilities as directors of a [**REDACTED**] company.

In preparation for the [**REDACTED**], we have engaged an Independent Third Party consultant (the "**Internal Control Consultant**") to perform a review over selected areas of our internal controls over financial reporting in November 2020 (the "**Internal Control Review**"). The scope of the internal Control Review performed by the Internal Control Consultant was agreed between us, the Joint Sponsors and the Internal Control Consultant. The selected areas of our internal controls over financial reporting that were reviewed by the Internal Control Consultant included entity-level controls and business process level controls, including revenue and receivables, purchase and payables, project management, fix assets, treasury, financial reporting, payroll, intangible assets, inventory, expense, tax, insurance and general controls of information technology.

The Internal Control Consultant performed the follow-up reviews in February 2021 to review the findings status of the management actions taken by our Group to address the findings of the Internal Control Review (the "**Follow-up Review**"). The Internal Control Consultant did not have any further recommendation in the Follow-up Review. The Internal Control Review and the Follow-up Review were conducted based on information provided by the Company and no assurance or opinion on internal controls were expressed by the Internal Control Consultant.

In addition, as part of our risk management measures, we have implemented specific measures against corruption and bribery. We require our third-party marketing service providers and other business functions which are susceptible to the risk of bribery and corruption to abide by our compliance requirements, and make necessary representations and warranties to us. In particular, we have established compliance guidelines in relation to anti-bribery and anti-corruption principles for our third-party marketing service providers we partnered with for the marketing of our products or services, and require them to comply with our anti-bribery and anti-corruption principles. At our headquarters level, we have appointed designated personnel to closely monitor the behavior of our third-party marketing service providers. We also conduct regular communications with medical institutions to review the performance of our third-party marketing service providers and to identify any potential risks or issues. The medical institutions are encouraged to provide anonymous report to us if there is any breach of the non-competition undertaking or anti-bribery clause by a marketing service provider and we will terminate the agreement with the marketing service provider immediately if we consider there is sufficient proof for such incidents. We have also established a system of supervision that allows complaints and reports to be submitted to our management regarding any non-compliant behaviors of our third-party marketing service providers. Upon any breach of such anti-corruption and anti-bribery measures by a service provider, we may terminate the relevant agreement with it and are entitled to claim damages from such service provider.