

## FINANCIAL INFORMATION

*You should read the following discussion and analysis in conjunction with our consolidated financial statements included in “Appendix I—Accountant’s Report” to this document, together with the accompanying notes. Our consolidated financial information has been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants, which may differ in material aspects from generally accepted accounting principles in other jurisdictions. You should read the entire Accountant’s Report and not merely rely on the information contained in this section.*

*The following discussion and analysis contain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether the actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. For details, see “Forward-looking Statements” and “Risk Factors.”*

### 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’s 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 an outpatient clinic.

As a medical operation service provider in China, we have been able to achieve sustainable growth through our diagnostic expertise and strong standardization capabilities, the diagnostic testing services for medical institution alliances, 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. In 2018 and 2019, we recorded loss for the year of RMB50.3 million and RMB31.5 million, respectively. Driven by the expansion of our diagnostic testing services for medical institution alliances and the increased volume of infectious disease diagnostic tests primarily due to the COVID-19 pandemic, we recorded profit for the year of RMB260.2 million for the year ended December 31, 2020. Our profit further increased to RMB381.9 million for the year ended December 31, 2021, primarily due to the increased number of COVID-19 tests we provided in 2021.

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### KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, affected by a number of factors, many of which may be beyond our control. A discussion of the key factors is set out below.

#### Growth of the Medical Operation Service Market in China

Our financial performance and future business growth depend on the development and growth of the medical operation service market in China. The size of the medical operation service market was approximately RMB30,694.9 million in China in 2020, increasing from RMB11,739.2 million from 2016 at a CAGR of 27.2%, according to Frost & Sullivan. The medical operation service market is largely driven by the overall growth of the healthcare market in China. In recent years, the growth of the healthcare service market in China was driven by favorable government policies to promote healthcare reform, growing healthcare expenditures as well as growing awareness for healthcare in China. According to Frost & Sullivan, from 2016 to 2020, the market size of healthcare service market in China has increased from RMB3,316.6 billion to RMB4,869.0 billion, representing a CAGR of 10.1%. Driven by the increasing awareness of healthcare and the aging population, the healthcare service market in China is forecasted to reach RMB7,519.6 billion by 2025, which represents a CAGR of 9.1% from 2020 to 2025. As the healthcare service market grows, the medical operation service market in China is expected to continue to grow at a CAGR of 9.3% to reach RMB47,946.1 million by 2025. As a medical operation service provider in China, we expect to capture growth opportunities in this market, which will impact our results of operations and future performance. For details, see “Industry Overview.”

#### Healthcare Reform in China

Over the past decade, the PRC government has issued a series of laws, regulations and policies to reform the healthcare industry in China. A key goal in China’s healthcare reform is to resolve the uneven distribution of medical resources by re-allocating resources efficiently across medical institutions in China. One part of the solution to this problem is the introduction of medical institution alliances pursuant to the Circular on Further Improving the Key Work Concerning the Construction of the Graded Diagnosis and Treatment System (關於進一步做好分級診療制度建設有關重點工作的通知), which was promulgated in August 2018, and the Administration Measures of Medical Institution Syndicate (For Trial Implementation) (醫療聯合體管理辦法(試行)), which was promulgated in July 2020. Medical institution alliances, which are associations of member hospitals, community health clinics and other medical institutions, aim to optimize the allocation of medical resources and have since been established in various cities and regions in China. To better allocate medical resources, medical institution alliances have sought medical operation services from ICLs and to build up their own laboratories to conduct diagnostic testing, which is critical in directing patients to the appropriate hospitals or clinics. As one of the first movers in this industry, the number of on-site diagnostic centers we assisted in establishing and operating have increased from 79 as of December 31, 2018 to 132 as of December 31, 2019 and further to 275 as of December 31, 2021. Healthcare reform policies continue to be implemented, and medical institution alliances are still being developed nationwide in China, which will continue to shape and affect the medical operation services industry, and in turn, affect our future financial performance.

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### Revenue and Gross Profit

During the Track Record Period, we primarily generated revenue from providing diagnostic outsourcing services and diagnostic testing services for medical institution alliances. To a lesser extent, we also provided diagnostic testing services for non-medical institutions. Our revenue amounted to RMB596.3 million, RMB677.8 million, RMB1,200.3 million and RMB1,696.7 million for the years ended December 31, 2018, 2019, 2020 and 2021, respectively.

- *Diagnostic outsourcing services.* We provide diagnostic testing services to hospitals, other medical institutions and public institutions, who outsource testing to us due to their lack of relevant testing capabilities and/or cost-effectiveness. Our revenue from this increased from RMB449.3 million in 2018 to RMB463.1 million in 2019, and further increased to RMB857.7 million in 2020. Our revenue from this further increased to RMB1,024.3 million in 2021. As a percentage of total revenue, our revenue from this has decreased from 75.3% in 2018 to 68.3% in 2019, and then increased to 71.5% in 2020. Our revenue from diagnostic outsourcing services has decreased to 60.4% in 2021 primarily because the increase in revenue from diagnostic testing services for medical institution alliances outpaced the increase in revenue from diagnostic outsourcing services. As we continuously improve and enhance our diagnostic outsourcing services, we have achieved more economies of scale and in turn, higher gross profit margins of 39.0%, 42.3%, 54.6% and 52.4% for the years ended December 31, 2018, 2019, 2020 and 2021, respectively. Our gross profit margin from diagnostic outsourcing services in 2021 was slightly lower than 2020 because the prices of COVID-19 tests set by government pricing protocols was lowered as COVID-19 tests became a routine test. The significant increase in revenue from such services in 2020 due to increased volume of infectious disease diagnostic tests, in particular as a result of the increasing number of COVID-19 tests in response to the COVID-19 pandemic, has also enabled us to increase gross profit margins through economies of scale and negotiate discounts based on volume with certain suppliers. The fluctuation of revenue from such services as a percentage of total revenue will continue to impact our overall gross profit margin.
- *Diagnostic testing services for medical institution alliances.* We assist hospitals to build on-site diagnostic centers and provide diagnostic testing services for hospitals within medical institution alliances. Our revenue from this increased from RMB100.8 million in 2018 to RMB166.1 million in 2019. As a result of the increase in infectious disease diagnostic tests, especially COVID-19 tests, revenue from this further increased to RMB275.8 million in 2020. For the same reason and as demand for genetic disease diagnostic tests grew with recovery from COVID-19 pandemic and the expansion of two of our genetic disease diagnostic centers, our revenue from this further increased to RMB619.4 million in 2021. As a percentage of total revenue, our revenue from this has increased from 16.9% in 2018 to 24.5% in 2019 in line with the increase in volume of diagnostic testing services provided. The decrease in its share of total revenue to 22.9% in 2020 was primarily because

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revenue generated from our diagnostic outsourcing services increased significantly in 2020 due to an increase in infectious disease diagnostic tests. As a percentage of total revenue, our revenue from this has further increased to 36.5% in 2021. As a result of the increasing cooperation among lead hospitals and member hospitals, it is expected that diagnostic testing services for medical institution alliances can expand organically to more member hospitals, especially for those in under-developed regions. Our diagnostic testing services for medical institution alliances generally have a higher gross profit margin as 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 with similar expected testing volume and (ii) the integrated service package we provide to our customers in diagnostic testing services for medical institution alliances. Our gross profit margins from diagnostic testing services for medical institution alliances were 42.5%, 49.3%, 51.9% and 52.8% in 2018, 2019, 2020 and 2021, respectively. As our revenue from such services generally represented a growth trend in terms of our overall revenue, we expect the higher and increasing gross profit margins from this to affect our overall gross profit margins in the future.

- *Diagnostic testing services for non-medical institutions.* During the Track Record Period, a small portion of our revenue was generated from diagnostic testing services for non-medical institutions. Our gross profit margin for diagnostic testing services for non-medical institutions were 48.4%, 44.0%, 66.0% and 67.3% for the years ended December 31, 2018, 2019, 2020 and 2021, respectively. Our gross profit margin for diagnostic testing services for non-medical institutions decreased from 48.4% in 2018 to 44.0% in 2019 primarily attributable to an increase in certain fixed costs after opening of our outpatient clinic in Guangdong province in 2019 while the volume of tests performed at the outpatient clinic decreased primarily due to cessation of business with insurance companies in 2019 as we gradually shifted our focus to cooperate with other non-medical institutions which we are able to charge a high selling price. Our gross profit margin for such services increased from 44.0% in 2019 to 66.0% in 2020, and further increased to 67.3% in 2021, primarily driven by the increased demand for COVID-19 tests from non-medical institutions as a result of the COVID-19 pandemic and increase in revenue from COVID-19 tests as a percentage of revenue from diagnostic testing services in 2021.

During the Track Record Period, we have focused our diagnostic testing primarily on pathology tests, genetic disease diagnostic tests, infectious disease diagnostic tests and routine diagnostic tests. As we began our diagnostic testing focusing on these areas, we have been able to capture growth in demand in each of these areas. In particular, our infectious disease diagnostic tests capabilities build up has enabled us to provide COVID-19 tests in 2020 and 2021, which experienced significant demand due to the pandemic. Our total revenue increased from RMB677.8 million in 2019 to RMB1,200.3 million in 2020 and further to RMB1,696.7 million in 2021. In particular, we recorded revenue of RMB547.1 million and RMB985.7 million from COVID-19 tests in 2020 and 2021, respectively, which accounted for 45.6% and 58.1% of our total revenue for the same periods. The gross profit margin of our COVID-19

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tests in terms of our revenue generated from diagnostic testing services for medical institution alliances and diagnostic outsourcing services amounted to 55.6% and 63.8%, respectively, in 2020 and 54.0% and 57.4%, respectively, in 2021. As hospitals, physicians and the general public increasingly recognize the importance of diagnostic testing in these areas of focus and as public healthcare awareness grows, we believe the demand for our services will to continue to be significant.

### Our Operating Expenses

During the Track Record Period, we primarily incurred selling expenses and administrative expenses as we laid the foundation for our medical operation services and built our network with medical institution alliances and other customers. Fluctuations in our operating expenses, especially variable expenses such as marketing and promotion expenses, had and will continue to impact our profitability.

- *Selling expenses.* Our selling expenses primarily consisted of marketing and promotion expenses, which mainly represent services fees paid to third-party marketing service providers that help us with marketing activities, as well as staff costs for our sales and marketing personnel. For the years ended December 31, 2018, 2019, 2020 and 2021, our selling expenses were RMB187.1 million, RMB192.7 million, RMB219.0 million and RMB273.3 million, respectively. The period-on-period increase was primarily due to an increase in marketing and promotion expenses in line with the overall growth of our business and scale of marketing and promotion activities. As a percentage of revenue, our selling expenses decreased from 31.4% in 2018 to 28.4% in 2019, and further decreased to 18.2% in 2020, because we improved the efficiency of our sales and marketing personnel with the growth of our business scale and in particular in 2020, the provision of COVID-19 tests generally required less sales and marketing efforts due to various government support and subsidies at the early stage of COVID-19 pandemic. As a percentage of revenue, our selling expenses further decreased to 16.1% in 2021 because we participated the government-funded full screening project for Covid-19 tests in Guangdong province in 2021, which required less marketing efforts.
- *Administrative expenses.* Our administrative expenses primarily consisted of staff costs, consultancy and professional service fees, depreciation and amortization charges, and cost of reagent and pharmaceuticals consumed associated with our research and development. For the years ended December 31, 2018, 2019, 2020 and 2021, our administrative expenses were RMB104.6 million, RMB112.7 million, RMB104.8 million and RMB152.1 million, respectively. The increase in administrative expenses from 2018 to 2019 primarily reflected an increase in the staff costs and consultancy and professional service fees in relation to professional compliance and tax consultation. From 2019 to 2020, our administrative expenses decreased as we no longer required third-party strategic planning services where the consultancy and professional service fees decreased correspondingly. Our administrative expenses further increased to RMB152.1 million in 2021, primarily

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reflecting the [REDACTED] we incurred in 2021. As a percentage of revenue, our administrative expenses decreased from 17.5% in 2018 to 16.6% in 2019, and further decreased to 8.7% in 2020, reflecting our ability to manage our costs while our business expands. As a percentage of revenue, our administrative expenses increased slightly to 9.0% in 2021 primarily due to the [REDACTED] we incurred.

### BASIS OF PREPARATION

The financial information has been prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRS**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). The financial information has been prepared under the historical cost convention, as modified by the revaluation of certain financial assets which are measured at fair value.

The preparation of financial information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying our accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial information are disclosed in note 4 to the Accountant’s Report as set out in Appendix I to this document.

HKFRS 9 “Financial Instruments” and HKFRS 15 “Revenue from Contracts with Customers” which are effective for the accounting period beginning on January 1, 2018 and HKFRS 16 “Leases” which is effective for the accounting period beginning on January 1, 2019 have been consistently applied by us throughout the Track Record Period.

### CRITICAL ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

The preparation of our financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could requires a material adjustment to the carrying amounts of the assets or liabilities affected in the future. Our significant accounting policies, judgments and estimates are set forth in detail in Notes 2 and 4 in the Accountant’s Report set out in Appendix I to this document. Set out below are the significant accounting policies which we believe are most important for an understanding of our financial condition and results of operations.

#### Revenue Recognition

Our revenue during the Track Record Period mainly represented proceeds from rendering diagnosis testing services to different types of customers, including diagnostic outsourcing customers, customers of diagnostic testing services for medical institution alliances and non-medical institutions. Revenue from diagnostic testing business is recognized when diagnostic testing reports were delivered to and accepted by customers.

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### Impairment for Trade Receivables

For trade receivables, we apply the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

We make provision for expected credit losses of trade and other receivables based on assumptions about risk of default and expected loss rates. We used judgement in making these assumptions and selecting the inputs to the impairment calculation, based on our past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivables and doubtful debt expenses in the periods in which such estimate has been changed.

### Fair Value Measurement of FVOCI and FVTPL

The fair value assessment of FVOCI and FVTPL that are measured at level 3 fair value hierarchy requires significant estimates, which include risk-free rates, expected volatility, relevant underlying financial projections, market information of recent transactions (such as recent fund raising transactions undertaken by the investees) and other assumptions. Changes in these assumptions and estimates could materially affect the respective fair value of these investments.

Our finance department performs the valuation of level 3 financial instruments for financial reporting purposes. We manage the valuation exercise of the investments on a case by case basis. At least once a year, our finance department uses valuation techniques to determine the fair value of our level 3 instruments and reports to senior management and the directors of our Company. For details, see note 3.3 to the Accountants’ Report as set out in Appendix I to this document.

Our financial assets at FVOCI and FVTPL which are categorized within level 3 of fair value measurements were mainly equity investments and debts investments.

In respect of the assessment of fair value of the equity investments and debts investments, with reference to the guidance under the “Guidance Note on Directors’ Duties in the Context of Valuations in Corporate Transactions” issued by the SFC in May 2017 applicable to directors of companies listed on the Stock Exchange, our Directors have undertaken the following key actions: (i) considering available information in assessing the financial forecast and assumptions including but not limited to the historical financial performance, market prospects, comparable companies’ conditions, economic, political and industry conditions; (ii) engaging an independent external valuer to assist our management to assess the fair value; (iii) considering the independence, reputation, capabilities and objectivity of the external valuer to ensure the suitability of such valuer; (iv) reviewing and discussing with our

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management and the external valuer on the valuation models and approaches; and (v) reviewing the valuation work papers and results prepared by the valuer. Valuation techniques are verified by the independent and recognized international business valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. In respect of the valuation of our equity investments and debts investments, details and the quantitative information about the significant unobservable inputs used in level 3 fair value measurements are set forth in Note 23 to the Accountants’ Report set out in Appendix I.

The Reporting Accountant has carried out necessary audit works in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants for the purpose of expressing an opinion on the Group’s historical financial information for the Track Record Period as a whole in Appendix I to this document. The Reporting Accountant’s opinion on the historical financial information of the Group for the Track Record Period as a whole is set out on page I-2 of Appendix I to this document.

The Joint Sponsors have conducted relevant due diligence work, including (i) obtaining information on the credentials of the valuer and the background, qualifications and work experience of its core team members; (ii) obtaining and reviewing the valuation reports issued by the valuer; (iii) understanding from the valuer the key basis and assumptions for the valuation of financial assets categorized as level 3 fair value measurements; (iv) reviewing relevant notes in the Accountants’ Report as contained in Appendix I to this document; and (v) understanding from the management of the Company and the Reporting Accountant the work they have performed in relation to the valuation of the level 3 financial instruments for the purpose of reporting on the historical financial information of the Group for the Track Record Period as a whole. Having considered the work done by the Company management and the Reporting Accountant, and the relevant due diligence done as stated above, nothing material has come to the Joint Sponsors’ attention that indicates that the Company management have not undertaken sufficient investigation and due diligence, or that the Company management’s reliance on the work products of the valuer is unreasonable.

### **Assessment of Controls Over Non-profit Clinics Founded by our Group**

During the Track Record Period, there were a total of 31 non-profit community health clinics, which were founded by our Group. As of the Latest Practicable Date and to the best knowledge of our Directors, 17 out of the remaining 22 (excluding nine community health clinics which had ceased operation in 2020) non-profit community health clinics (“**Community Clinics**”) are still in operation. After the Group’s disposal in January 2021, the other 5 Community Clinics ceased operation or were sold during June and July 2021. Despite the fact that we invested in the clinics, we did not have the controlling power over the clinics. We have entered into agreements with those clinics pursuant to which we obtained contractual rights to provide management services at the non-profit community health clinics for certain periods and were entitled to receive performance based management fees for the years ended December 31, 2018, 2019 and 2020. These contractual rights had been disposed along with the disposal of the subsidiary engaged in the management of Community Clinics by the Group in January 2021.



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We did not have control over such non-profit community health clinics (the “Community Clinics”) after taking into account of the following considerations:

According to Hong Kong Financial Reporting Standards 10 “Consolidated Financial Statements” (“HKFRS 10”), the principle of control sets out the following three elements of control including whether the investor has the following conditions:

- (a) power over investee;
- (b) exposure, or rights, to variable return from its involvement with the investee; and
- (c) the ability to use its power over the investee to affect the amount of the investor’s return.

We had performed an analysis based on the principle set out in HKFRS 10:

*(a) No power over the Community Clinics*

According to the articles of association of each of the Community Clinics, the executive committee (理事會) is the highest decision-making authority for material business matters of the Community Clinics. During the Track Record Period, the executive committee of each of the Community Clinics comprised of three to eight members, of which only one of them was appointed by us and the remaining executive committee members were elected by an employee representatives committee (職工代表大會). Therefore, we did not have power over material business matters of the Community Clinics, as the employee representatives (as a group) had de facto veto rights in respect of these matters;

One of the executive committee members (the “**Executive Member**”) also acts as the general manager of Ganjiang New Area Yunzhou Information Technology Service Co., Ltd. (previously know as Nanchang Yunzhou Information Technology Service Co., Ltd.) (“**Ganjiang Yunzhou**”) and the general manager of another two subsidiaries of the Group, Zhuhai Yinhua Trade Development Co., Ltd. (“**Zhuhai Yinhua**”) and Zhuhai Zhuchang Trading Co., Ltd. (“**Zhuhai Zhuchang**”).

Ganjiang Yunzhou, which principally engaged in sales and marketing activities, is not a major subsidiary of the Group. All the sales and marketing activities undertaken by Ganjiang Yunzhou, including contracts negotiations, pricing and signing, are subject to the Group’s review and approval. Accordingly, the Executive Member has no final decision-making power and only executed the decisions made at Group level.

Zhuhai Yinhua and Zhuhai Zhuchang are subsidiaries of the disposal group with no substantial business operations.

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In addition, the employee representatives committee of each community clinic are elected by employees of community clinics with a term of 1-3 years. The employee representatives would be re-elected upon expiry of the term according to the articles and regulations of the community clinics. All of the employees of the clinics are eligible to vote based on the candidate’s reputation, and enthusiasm to participate in the community clinic’s affairs. The election and re-election of employee representatives do not require the prior approval of the Group. The employees of the community clinic are eligible to re-nominate another preferred employee representative if they consider the current employee representative is not representing and acting for their best interest.

Taking into account of the above analysis, the Directors consider (i) Ganjiang Yunzhou, Zhuhai Yinhua and Zhuhai Zhuchang are either belong to disposal group with no business operations or not major subsidiaries of the Group; (ii) the Executive Member has no final decision-making or influencing power over our Group; and (iii) the employee representatives committee of each community clinic are elected and could be re-elected by the employees of each community clinic without the prior approval or consent of the Group.

As such our Directors are of the view that even the Executive Member holds directorship or senior management position in the Group’s subsidiary or the subsidiaries of the disposal group, it would not affect the conclusion that the Group did not have control over the non-profit community health clinics as the Group has no power over such clinics.

***(b) No ability to use our power over the Community Clinics to affect the service fees entitled***

The management fee rates and other critical terms included in the hospital management agreements, which were considered as material business matters of the Community Clinics, were determined based on the negotiations between each Community Clinic and us with reference to the revenue growth and market rate, and subject to a simple majority approval by the executive committees of the Community Clinics. We do not have discretionary power or ability to affect the amount of management fees payable by the Community Clinics or the other material terms included in the hospital management agreements.

Taking into account of the above analysis, we considered we do not have control over the Community Clinics according to HKFRS 10. As part of the Reorganization, we have disposed of the subsidiary engaging in the management of the Community Clinics in January 2021. For details, see “History, Reorganization and Corporate Structure.”

Our Directors, after discussing with the Reporting Accountant, have considered the investments in non-profit community health clinics are accounted as intangible assets as contractual rights to provide management services in accordance with Hong Kong Accounting Standard 38 “Intangible Assets” (“**HKAS 38**”). The Reporting Account’s opinion, which was

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issued in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 “Accountants’ Report on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants, on the historical financial information of the Group as a whole for the Track Record Period is set out in Appendix I to the Document.

The contractual rights to provide management services relating to the 31 Community Clinics were acquired from third parties during 2018 and 2019 with an aggregated cost of RMB42.7 million.

Pursuant to these agreements, we provide management services to these hospitals for a period of 40 years. The contractual rights to provide management services are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of contractual rights over their useful lives of 40 years.

The assets that are subject to amortization are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Given that certain community health clinics were still in the stage with marginal net income, our management consider that there were indicators for impairment and performed impairment testing as of December 31, 2018, 2019 and 2020.

The recoverable amount of contractual rights to provide management services relating to individual community clinic is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by our management covering a five-year forecast period. Cash flows beyond the five-year forecast period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which individual community clinic operates.

The key assumptions, long-term growth rate and discount rate used in the value-in-use calculations as of December 31, 2018, 2019 and 2020 are as follows:

	As of December 31,		
	2018	2019	2020
	%	%	%
Revenue (% compound growth rate) (i)	14.2-30.5	14.4-30.2	14.1-29.1
Long-term growth rate (ii)	5	5	5
Pre-tax discount rate (iii)	15.6-17.4	15.6-17.4	15.6-17.4

*Notes:*

- (i) Revenue compound growth rate is for the five-year forecast period. It is based on past performance and management’s expectations of market development, taking into account the resident density near each Community Clinics, average outpatient rate to be achieved, charge rate per patient and etc.

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- (ii) The long-term growth rate is for the remaining management service period, which excludes the first five-year forecast period. It does not exceed the long-term average growth rate for the business in which the community health clinics operate.
- (iii) The discount rates used are pre-tax and reflect specific risks relating to the individual community clinic. The future cash flows used in value-in-use calculations to assess the contractual rights impairment did not include income tax receipts or payments, and thus our management used the pre-tax discount rate to match the future cash flows when calculating the recoverable amount of the certain community health clinics.

The results of the impairment test revealed that no impairment was required to be recognized for the years ended December 31, 2018 and 2019 with the headrooms of RMB5,357,000 and RMB9,932,000, respectively. While nine community health clinics had suspended or ceased their operations from February to September 2020 due to their operations were adversely impacted by the unexpected COVID-19 pandemic outbreak in 2020, our management has assessed and considered that an impairment of RMB7,790,000 was required to be recognized, which was the carrying amounts of the intangible assets related to those nine community clinics as of the respective dates of their closures.

### **Current and Deferred Income Tax**

We are subject to corporate income taxes in the PRC. Judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Deferred tax assets relating to certain temporary differences and tax losses are recognized when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

### **Impairment of Non-current Assets**

We performed the impairment testing related the non-current assets including investments in associates, prepayments and contractual rights to provide management services on an annual basis. Investment in associates, prepayment and intangible assets are tested whenever events or changes in circumstances indicate that the carrying amount of those assets exceed its recoverable amount. The recoverable amount is determined based on the higher of fair value less cost to sell and value in use. Determination of the value in use is an area involving management judgement in order to assess whether the carrying value of the intangible development assets not available for use or investment in associates can be supported by the net present value of future cash flows. In calculating the net present value of the future cash flows, we made certain assumptions including management’s expectations of (i) timing of commercialization, productivity and market size; (ii) revenue compound growth rate; (iii) costs and operating expenses; and (iv) the selection of discount rates to reflect the risks involved.

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### DESCRIPTION OF KEY ITEMS IN OUR CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following table sets forth our consolidated statements of comprehensive income for the periods indicated:

	For the year ended December 31,							
	2018		2019		2020		2021	
	<i>(RMB in thousands, except for percentages)</i>							
Revenue	596,308	100.0%	677,826	100.0%	1,200,320	100.0%	1,696,740	100.0%
Cost of revenue	(355,923)	(59.7)	(378,632)	(55.9)	(544,425)	(45.4)	(797,603)	(47.0)
<b>Gross profit</b>	<b>240,385</b>	<b>40.3</b>	<b>299,194</b>	<b>44.1</b>	<b>655,895</b>	<b>54.6</b>	<b>899,137</b>	<b>53.0</b>
Selling expenses	(187,080)	(31.4)	(192,655)	(28.4)	(219,015)	(18.2)	(273,304)	(16.1)
Administrative expenses	(104,639)	(17.5)	(112,749)	(16.6)	(104,753)	(8.7)	(152,078)	(9.0)
Net impairment losses on financial assets	(117)	–	(6,386)	(0.9)	(5,315)	(0.4)	(23,073)	(1.4)
Other income	22,513	3.8	6,115	0.9	14,056	1.2	7,869	0.5
Other losses	(851)	(0.1)	(289)	–	(1,288)	(0.1)	(1,121)	(0.1)
Fair value changes on financial assets at fair value through profit or loss	2,532	0.4	9,830	1.5	1,882	0.2	264	0.0
Finance costs – net	(4,810)	(0.8)	(11,731)	(1.7)	(17,075)	(1.4)	(6,474)	(0.4)
Share of net loss of associates accounted for using the equity method	(485)	(0.1)	(1,961)	(0.3)	(1,559)	(0.1)	–	–
<b>(Loss)/Profit before income tax</b>	<b>(32,552)</b>	<b>(5.5)</b>	<b>(10,632)</b>	<b>(1.6)</b>	<b>322,828</b>	<b>26.9</b>	<b>451,220</b>	<b>26.6</b>
Income tax credit/(expenses)	3,808	0.6	(757)	(0.1)	(52,519)	(4.4)	(78,722)	(4.6)
(Loss)/Profit from continuing operations	(28,744)	(4.8)	(11,389)	(1.7)	270,309	22.5	372,498	22.0
(Loss)/Profit from discontinued operation	(21,600)	(3.6)	(20,155)	(3.0)	(10,137)	(0.8)	9,395	0.6
<b>(Loss)/profit for the year</b>	<b>(50,344)</b>	<b>(8.4)</b>	<b>(31,544)</b>	<b>(4.7)</b>	<b>260,172</b>	<b>21.7</b>	<b>381,893</b>	<b>22.5</b>
(Loss)/Profit attributable to:								
– Owners of our Company	(49,408)	(8.3)	(30,957)	(4.6)	255,334	21.3	380,932	22.5
– Non-controlling interests	(936)	(0.2)	(587)	(0.1)	4,838	0.4	961	0.1
Other comprehensive (loss)/income, net of tax	(11,171)	(1.9)	10,387	1.5	15,805	1.3	3,303	0.2
<b>Total comprehensive (loss)/income for the year</b>	<b>(61,515)</b>	<b>(10.3)</b>	<b>(21,157)</b>	<b>(3.1)</b>	<b>275,977</b>	<b>23.0</b>	<b>385,196</b>	<b>22.7</b>
<b>Total comprehensive (loss)/income attributable to:</b>								
– Owners of our Company	(60,371)	(10.1)	(20,763)	(3.1)	270,845	22.6	384,065	22.6
– Non-controlling interests	(1,144)	(0.2%)	(394)	(0.1%)	5,132	0.4%	1,131	0.1%

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## FINANCIAL INFORMATION

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### BUSINESS SUSTAINABILITY

#### Historical Financials

We recorded accumulated losses of RMB83.3 million as of January 1, 2018. The accumulated loss as of January 1, 2018 was primarily due to the net losses from 2015 to 2017, which were attributable to (i) the lower gross profit margins from 2015 to 2017 primarily due to a significant portion of our diagnostic testing at that time being routine diagnostic tests, which generally have a lower gross profit margin, (ii) more selling expenses as we engaged more third-party marketing service providers to build up our sales network of diagnostic testing services, and (iii) more administrative expenses attributable to (a) higher staff costs as we hired more employees to support our business and research and development activities; and (b) higher research and development expenses as the development of the Yunkang apps was expensed off in 2016 and 2017; as well as certain research and development costs relating to the improvement of cold chain logistics system and the research and development of our IT system and diagnostic methods. Yunkang apps are our in-house developed apps for physicians and medical institutions. They consist of (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 institution 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.

We recorded net losses of RMB49.4 million and RMB31.0 million for the years ended December 31, 2018 and 2019, respectively. Our financial performance in 2018 and 2019 primarily reflected our efforts to promote our diagnostic testing services for medical institution alliances and to develop our diagnostic capabilities and platforms, which required preliminary expenditures and investments. We incurred substantial operating expenses, especially selling expenses as we conducted significant marketing and promotion activities to promote our medical operation services. In addition, we recorded relatively high administrative expenses in 2019 due to an increase in staff costs as we hired more employees to support our business expansion and an increase in consultancy and professional expenses in 2019, which primarily related to the one-time service fees we paid for obtaining market research and analysis to better understand the medical operation service market and its competitive landscape in China.

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## FINANCIAL INFORMATION

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### Measures Taken

We have been taking the following measures to turnaround our business to be profit-making.

- ***Gradually shifting to tests with higher profit margins.*** In 2015, a significant portion of our diagnostic tests were routine diagnostic tests, which generally have a low gross profit margin. Starting from 2016, we have gradually to infectious disease diagnostic tests, pathology tests and genetic disease diagnostic tests, which have a higher gross profit margin in light of their higher technical requirement. Our revenue generated from infectious disease diagnostic tests, pathology tests and genetic disease diagnostic tests (in aggregate) have increased steadily during the Track Record Period.
- ***Cost control.*** We have taken various measures to control our cost, in particular administrative expenses. We have streamlined our headcount, in particular in our IT department who were responsible for R&D from 101 as of December 31, 2016 to 58 as of December 31, 2018 and further to 49 as of December 31, 2021. The decrease of our headcount in the IT department was primarily because historically we engaged a number of employees to develop software and IT system for non-profit community health clinics which we gradually ceased to focus on. We have also decreased our R&D expenditure on reagent and pharmaceuticals consumed associated with our research and development on our diagnostic capabilities which decreased from RMB16.4 million in 2018 to RMB14.4 million in 2019, and further decreased to RMB11.5 million in 2020 except there was a slight increase to RMB13.3 million in 2021 due to an overall business expansion as reflected in our revenue growth. There was also decrease in consultancy and professional fees decreased from RMB18.5 million in 2019 to RMB11.5 million in 2021. The implementation of these cost control measures have result in decrease in our administrative expenses as a percentage of revenue. Our administrative expenses decreased from 17.5% in 2018 to 16.6% in 2019, which decreased to 8.7% in 2020. As a percentage of revenue, our administrative expenses (excluding the [REDACTED]) decreased from 7.7% in 2020 to 7.0% in 2021, primarily reflecting our cost control effort as the growth of administrative expenses is slower than the growth of revenue. In addition, we have improved our operational efficiency in terms of our in-house sales and marketing efforts. As a percentage of revenue, our staff costs under selling expenses decreased from 8.9% in 2018 to 7.7% in 2019, and further decreased to 4.6% in 2020 while our travelling and entertainment expenses under selling expenses decreased from 2.8% in 2018 to 2.3% in 2019 and further decreased to 1.4% in 2020. Our staff costs under selling expenses further decreased to 4.0% in 2021 while our travelling and entertainment expenses under selling expenses increased from 1.4% in 2020 to 1.8% in 2021 due to partial resumption of travel in 2021 after the COVID-19 pandemic.

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## FINANCIAL INFORMATION

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- ***Quick response to COVID-19 tests.*** Leveraging our existing professional and standardized diagnostic capabilities and our experiences and insights in infectious disease diagnostic testing, we have been able to respond quickly to market demand for COVID-19 tests in 2020. 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. For the year ended December 31, 2020, we recorded revenue of RMB547.1 million and gross profit of RMB347.7 million from COVID-19 tests as compared to nil and nil in 2019 prior to the COVID-19 outbreak. For the year ended December 31, 2021, we recorded revenue of RMB985.7 million and gross profit of RMB560.0 million from COVID-19 tests as compared to RMB547.1 million and RMB347.7 million for the year ended December 31, 2020, respectively.
- ***Expansion of medical institution alliance network.*** We also generated revenue from diagnostic testing services for medical institution alliances of RMB100.8 million, RMB166.1 million, RMB275.8 million and RMB619.4 million for the years ended December 31, 2018, 2019, 2020 and 2021, respectively. It reflected the expansion of network of medical institution alliances we serve. As of December 31, 2018, 2019, 2020 and 2021, we assisted in establishing and operating 79, 132, 199 and 275 on-site diagnostic centers, respectively.

As a result of the above, we have been able to turnaround our financials starting from 2020. In 2020, our gross profit and net profit amounted to RMB655.9 million and RMB260.2 million respectively. For the year ended December 31, 2021, our gross profit and net profit amounted to RMB899.1 million and RMB381.9 million, respectively.

### DISCUSSION OF KEY ITEMS IN OUR CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

#### Revenue

Our revenue is generated from (i) providing diagnostic outsourcing services, including infectious disease diagnostic tests, pathology tests, genetic disease diagnostic tests and routine diagnostic tests; (ii) providing diagnostic testing services for medical institution alliances, including infectious disease diagnostic tests, pathology tests, genetic disease diagnostic tests and routine diagnostic tests; and (iii) providing diagnostic testing services for non-medical institutions, which mainly include personalized diagnostic testing, report consultation and hospital referral. Please see “Business—Our Services” for details.



## FINANCIAL INFORMATION

The table below sets forth a breakdown of our revenue by customer type for the periods indicated:

	For the year ended December 31,							
	2018		2019		2020		2021	
	<i>(RMB in thousands, except for percentages)</i>							
<b>Diagnostic outsourcing services</b>								
– 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
<i>Subtotal</i>	449,278	75.3	463,105	68.3	857,733	71.5	1,024,274	60.4
<b>Diagnostic testing services for medical institution alliances</b>								
– 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
<i>Subtotal</i>	100,811	16.9	166,064	24.5	275,768	22.9	619,356	36.5
<b>Diagnostic testing services for non-medical institutions</b>								
– 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
<i>Subtotal</i>	46,219	7.8	48,657	7.2	66,819	5.6	53,110	3.1
<b>Total</b>	596,308	100.0%	677,826	100.0%	1,200,320	100.0%	1,696,740	100.0%

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During the Track Record Period, a majority of our revenue were generated from medical institutions located in the same provinces/municipalities as our ICLs. The following table sets for a breakdown of our revenue by geographical location for the periods indicated.

	Diagnostic outsourcing services						Diagnostic testing services for medical institution alliances						Diagnostic testing services for non-medical institutions											
	2018		2019		2020		2021		2020		2021		2018		2019		2020		2021					
	Revenue	%	Revenue	%	Revenue	%	Revenue	%	Revenue	%	Revenue	%	Revenue	%	Revenue	%	Revenue	%	Revenue	%				
	For the year ended December 31,																							
	RMB in millions, except for percentage																							
Guangdong	285.3	63.5%	312.8	67.5%	646.5	75.4%	800.1	78.1%	74.9	74.3%	134.4	80.9%	214.0	77.6%	538.5	86.9%	25.4	55.0%	40.0	82.3%	57.8	86.5%	40.5	76.3%
Sichuan	60.6	13.5%	47.1	10.2%	51.5	6.0%	65.3	6.4%	3.8	3.7%	8.7	5.2%	15.1	5.5%	24.5	4.0%	1.5	3.2%	0.1	0.2%	1.8	2.6%	2.5	4.7%
Shanghai	20.4	4.5%	23.2	5.0%	62.2	7.2%	53.2	5.2%	-	-	-	-	-	-	-	-	1.0	2.2%	0.2	0.4%	0.7	1.0%	6.6	12.5%
Anhui	12.6	2.8%	9.4	2.0%	28.5	3.3%	30.2	2.9%	-	-	1.7	1.0%	5.9	2.1%	19.8	3.2%	5.1	11.0%	2.4	5.0%	1.3	2.0%	0.2	0.4%
Jiangxi	21.8	4.8%	23.1	5.0%	27.2	3.2%	22.9	2.2%	-	-	0.4	0.2%	1.1	0.4%	2.2	0.4%	0.5	1.1%	-	-	-	-	-	-
Yunnan	2.7	0.6%	1.9	0.4%	6.1	0.7%	3.0	0.3%	20.8	20.7%	14.9	9.0%	15.5	5.6%	12.9	2.1%	3.0	6.5%	2.4	4.9%	-	-	-	-
Henan	0.1	-	0.2	-	0.4	-	17.4	1.7%	-	-	-	-	0.9	0.3%	2.8	0.5%	0.7	1.5%	-	-	-	-	0.1	0.1%
Jiangsu	15.5	3.4%	11.9	2.6%	10.1	1.2%	10.0	1.0%	-	-	-	-	-	-	-	-	0.3	0.6%	-	-	1.6	2.5%	-	-
Others	30.3	6.9%	33.4	7.3%	25.2	3.0%	22.1	2.2%	1.3	1.3%	6.0	3.7%	23.3	8.5%	18.7	2.9%	8.7	18.9%	3.6	7.2%	3.6	5.4%	3.2	6.0%
<b>Total</b>	<b>449.3</b>	<b>100.0%</b>	<b>463.0</b>	<b>100.0%</b>	<b>857.7</b>	<b>100.0%</b>	<b>1,024.2</b>	<b>100.0%</b>	<b>100.8</b>	<b>100.0%</b>	<b>166.1</b>	<b>100.0%</b>	<b>275.8</b>	<b>100.0%</b>	<b>619.4</b>	<b>100.0%</b>	<b>46.2</b>	<b>100.0%</b>	<b>48.7</b>	<b>100.0%</b>	<b>66.8</b>	<b>100.0%</b>	<b>53.1</b>	<b>100.0%</b>

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### Cost of Revenue

Our cost of revenue primarily consists of (i) cost of reagent and pharmaceuticals consumed, which mainly includes procurement costs for materials used in providing our services; (ii) staff costs, representing wages, benefits and bonuses of our business operation personnel; (iii) subcontracting costs, which represents the fees we paid to third-party subcontractors that provide certain diagnostic testing services; (iv) transportation expenses associated with our service provision, such as to obtain test samples from hospitals; (v) depreciation and amortization charges, which primarily include depreciation of medical equipment used to provide diagnostic testing services as well as amortization of software; and (vi) others, primarily including office expenses, rental expenses and travelling and entertainment expenses. The following table sets forth a breakdown of our cost of revenue for the periods indicated:

	For the year ended December 31,									
	2018			2019			2020			2021
	<i>(RMB in thousands, except for percentages)</i>									
Cost of reagent and										
pharmaceuticals consumed	149,590	42.0%	149,459	39.5%	274,697	50.4%	418,586	52.5%		
Staff costs	78,086	21.9	93,876	24.8	103,971	19.1	166,017	20.8		
Subcontracting costs	81,408	22.9	81,153	21.4	80,633	14.8	95,041	11.9		
Transportation expenses	14,347	4.0	17,851	4.7	31,656	5.8	43,955	5.5		
Depreciation and amortization										
charges	19,042	5.4	23,521	6.2	30,248	5.6	41,554	5.2		
Others <sup>(1)</sup>	13,450	3.8	12,772	3.4	23,220	4.3	32,450	4.1		
<b>Total</b>	<b>355,923</b>	<b>100.0%</b>	<b>378,632</b>	<b>100.0%</b>	<b>544,425</b>	<b>100.0%</b>	<b>797,603</b>	<b>100.0%</b>		

*Note:*

- (1) Primarily include other miscellaneous costs, such as rental expenses, traveling and entertainment expenses, and office expenses.

### Gross Profit and Gross Profit Margin

Our gross profit represents our revenue less cost of revenue. For the years ended December 31, 2018, 2019, 2020 and 2021, our gross profit was RMB240.4 million, RMB299.2 million, RMB655.9 million and RMB899.1 million, respectively. Gross profit margin represents our gross profit as a percentage of our revenue. For the years ended December 31, 2018, 2019, 2020 and 2021, our gross profit margin was 40.3%, 44.1%, 54.6% and 53.0%, respectively.

## FINANCIAL INFORMATION

The following table sets forth a breakdown of our gross profit and gross profit margin by customer type for the periods indicated.

	For the year ended December 31,							
	2018		2019		2020		2021	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>(RMB in thousands, except for percentages)</i>							
Diagnostic outsourcing services	175,116	39.0%	195,851	42.3%	468,675	54.6%	536,262	52.4%
Diagnostic testing services for medical institution alliances	42,884	42.5	81,940	49.3	143,137	51.9	327,140	52.8
Diagnostic testing services for non-medical institutions	<u>22,385</u>	48.4	<u>21,403</u>	44.0	<u>44,083</u>	66.0	<u>35,735</u>	67.3
<b>Total gross profit/overall gross profit margin</b>	<u>240,385</u>	40.3%	<u>299,194</u>	44.1%	<u>655,895</u>	54.6%	<u>899,137</u>	53.0%

### Selling Expenses

Our selling expenses primarily consist of (i) marketing and promotion expenses, which mainly represents service fee paid to the third-party marketing service providers to promote our services to hospitals; (ii) staff costs, representing wages, benefits and bonuses of our in-house sales and marketing team; (iii) travelling and entertainment expenses incurred by our in-house sales and marketing team; (iv) depreciation and amortization charges of office equipment; and (v) office expenses. The overall increase in our total selling expenses during the Track Record Period was mainly due to increases in service fees paid to the third-party marketing service providers for the designated marketing services which are based on the revenue we generated from the hospitals in terms of diagnostic testing we provided. As such, the increase in such service fees was in line with the increase in the scale of our business and sales and marketing activities to further expand our business outreach. 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 the provision of diagnostic services which is determined based on the number of diagnostic tests that we have performed for the relevant medical institutions that a third-party marketing service provider has provided marketing services for. 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. For the years ended December 31, 2018, 2019, 2020 and 2021, the amount of marketing and promotion expenses we paid to the third-party marketing service providers were RMB105.0 million, RMB118.0 million, RMB139.8 million and RMB169.3 million, respectively, which on average represents 35%, 35%, 36% and 25% of our revenue generated from the diagnostic testing services that these third-party marketing

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service providers promoted<sup>1</sup>, respectively. These 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 marketing service providers visit our customers on behalf of us on a regular basis to maintain the long term relationship and ensure that we receive their feedbacks in a timely manner. They also assist us in collecting receivables from our customers. The decrease in the amount we paid to these third-party marketing service providers as a percentage of our revenue generated from the diagnostic testing services that these third-party marketing service providers promoted for the year ended December 31, 2021 was primarily because we increased our in-house sales and marketing activities and therefore relied less on these third-party marketing service providers and the full screening project for COVID-19 tests require less marketing efforts during such period. The service fees paid by us to our third-party marketing service providers as a percentage in terms of the revenue of our Group generated from the corresponding testing services was generally comparable in the industry, according to Frost & Sullivan. For details, see “Business—Sales and Marketing—Sales Model.” The following table sets forth a breakdown of our selling expenses for the periods indicated:

	For the year ended December 31,							
	2018		2019		2020		2021	
	<i>(RMB in thousands, except for percentages)</i>							
Marketing and promotion								
expenses	105,008	56.1%	117,990	61.2%	139,780	63.7%	169,292	61.9%
Staff costs	53,135	28.4	52,183	27.1	55,457	25.3	67,485	24.7
Travelling and entertainment								
expenses	16,759	9.0	15,776	8.2	17,234	7.9	30,365	11.1
Depreciation and amortization								
charges	1,386	0.7	830	0.4	779	0.4	1,997	0.7
Office expenses	5,052	2.7	3,528	1.8	1,705	0.8	1,241	0.5
Others	5,740	3.1	2,348	1.3	4,060	1.9	2,924	1.1
<b>Total</b>	<b>187,080</b>	<b>100.0%</b>	<b>192,655</b>	<b>100.0%</b>	<b>219,015</b>	<b>100.0%</b>	<b>273,304</b>	<b>100.0%</b>

Our Directors confirmed that, to their best knowledge, information and belief, none of the third-party marketing service providers we engaged, their shareholders, directors 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.

(1) Calculated by dividing our total marketing service fees by our revenue generated from the diagnostic testing services promoted by third-party marketing service providers for the corresponding year.

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### Administrative Expenses

Our administrative expenses primarily consist of (i) staff costs, representing wages, benefits and bonuses of our administrative staff and R&D staff; (ii) [REDACTED], representing the service fees payable to professional parties in relation to our proposed [REDACTED]; (iii) cost of reagent and pharmaceuticals consumed associated with our research and development to enhance our diagnostic capabilities; (iv) depreciation and amortization charges in relation to our properties and buildings and office equipment; (v) consultancy and professional service fees; (vi) office expenses; (vii) travelling and entertainment expenses; (viii) insurance costs; and (ix) auditors’ remuneration. The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	For the year ended December 31,							
	2018		2019		2020		2021	
	<i>(RMB in thousands, except for percentages)</i>							
Staff costs	41,570	39.7%	44,997	39.9%	39,113	37.3%	56,245	37.0%
[REDACTED]	-	-	-	-	12,047	11.5	33,481	22.0
Cost of reagent and pharmaceuticals consumed	16,352	15.6	14,381	12.8	11,532	11.0	13,349	8.8
Depreciation and amortization charges	8,561	8.2	8,688	7.7	8,962	8.6	12,287	8.1
Consultancy and professional service fees	12,771	12.2	18,538	16.4	9,955	9.5	11,486	7.6
Office expenses	6,883	6.6	6,475	5.7	8,972	8.6	10,183	6.7
Travelling and entertainment expenses	4,375	4.2	5,601	5.0	3,447	3.3	5,810	3.8
Insurance costs	3,875	3.7	3,727	3.3	2,498	2.4	2,087	1.4
Auditors’ remuneration	1,024	1.0	988	0.9	993	0.9	250	0.2
Others <sup>(1)</sup>	9,228	8.8	9,354	8.3	7,234	6.9	6,900	4.4
<b>Total</b>	<b>104,639</b>	<b>100.0%</b>	<b>112,749</b>	<b>100.0%</b>	<b>104,753</b>	<b>100.0%</b>	<b>152,078</b>	<b>100.0%</b>

*Note:*

- (1) Primarily include maintenance costs in relation to our leased properties, training expenses and technical development expenses.

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### *Staff costs*

In 2018, 2019, 2020 and 2021, our staff costs in administrative expenses amounted to RMB41.6 million, RMB45.0 million, RMB39.1 million and RMB56.2 million, respectively. The decrease in our staff costs in administrative expenses in 2020 primarily because (i) we enjoyed certain government policies on partially or fully waiving the company’s contributions to social insurance and housing provident fund; and (ii) there was a decrease in number of general and administrative staff. Our staff costs in administrative expenses increased in 2021 primarily because we hired more administrative staff to refill the headcounts in response to our increased business demand as reflected in our revenue growth. The following table summarizes the breakdown of our administrative staff.

	<b>For the year ended December 31,</b>			
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b><i>Average number of administrative staff during the period<sup>(1)</sup></i></b>				
General and administrative staff	128	159	141	159
R&D staff	79	74	101	119
<b>Total</b>	207	233	242	278

*Note:*

- (1) The numbers of administrative staff here represent the staff that we paid salaries to during such periods, including full-time and part-time employees.

During the Track Record Period, the R&D activities that our R&D staff conducted included (i) development and application of diagnostic testing technologies, especially in genetic disease testing and pathology testing; and (ii) development, update and application of software and platform for our diagnostic testing services for medical institution alliances to enhance efficiency, including Yunkang apps, logistics platform and big data application, among others.

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## FINANCIAL INFORMATION

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### *Consultancy and professional service fees*

For the years ended December 31, 2018, 2019, 2020 and 2021, we paid RMB12.8 million, RMB18.5 million, RMB10.0 million and RMB11.5 million, respectively, as consultancy and professional service fees to third-party consultancy firms. We normally only engage reputable firms that we believe can provide us insights of the medical operation service market or consulting firms that can provide us with the professional services. During the Track Record Period, such service providers primarily included:

- (i) in 2021, we paid (a) RMB3.3 million to an education service provider to conduct strategic planning related training to our management team for online cloud services; and (b) RMB1.3 million to an authorized dealer of an industry-leading Internet cloud service operator;
- (ii) in 2020, we paid (a) RMB3.4 million to an education service provider to conduct strategic planning related training to our management team, (b) RMB1.0 million to a tax consultancy firm for tax consulting services in relation to business expansion and (c) RMB0.7 million as software license fees;
- (iii) in 2019, we paid (a) RMB7.2 million to an industry consultant to conduct market research and analysis and issue quarterly market research and analysis reports with respect to the research and investment prospect in the industry of in-vitro diagnosis, demand and development trends of third-party medical laboratories, present and future of the medical equipment and the influences of medical reforms; (b) RMB6.2 million to an industry consultancy service firm to conduct market research and analysis and issue quarterly market reports with respect to community healthcare system, healthcare big data and IT application, investment in local hospitals and network platform in the healthcare industry; and (c) RMB0.5 million to a consulting firm for human resource services; and
- (iv) in 2018, we paid (a) RMB6.7 million to a technology service provider to enhance our IT systems for supply chain management and business operations; (b) RMB2.0 million to Da An Gene for technical consultancy services and (c) RMB0.7 million to a well-known third-party IT cloud solution provider for IT consultation services.

For the remaining consultancy and professional service fees, we primarily procured consulting services, generally including tax, legal, financial, public tendering services, human resources and business strategic planning. Save for Da An Gene, being our connected person, our Directors confirmed that, to their best knowledge, information and belief, all the third-party consulting firms we engaged, their shareholders, directors or senior management, or any of their respective associates, do not 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.



## FINANCIAL INFORMATION

### Net Impairment Losses on Financial Assets

Our net impairment losses on financial assets primarily consists of impairment made for trade and other receivables. For the years ended December 31, 2018, 2019, 2020 and 2021, we recorded net impairment losses on financial assets of RMB0.1 million, RMB6.4 million, RMB5.3 million and RMB23.1 million, respectively.

### Other Income

Our other income primarily consists of (i) government grants, which mainly include one-off industry related government grants we received from local governments in recognition of the qualification of certain members of our Group on being high and new technology enterprises; (ii) sales of equipment and reagents, which represents income we generated from the sales of pharmaceutical products and reagents in 2020 and 2021 which was non-recurring in nature; (iii) interest income, which represents interest income generated from fixed time deposits which expired in 2018 and turned into demand deposits subsequently; and (iv) others, which mainly include income tax refund for our employees. The following table sets forth a breakdown of our other income for the periods indicated:

	<b>For the year ended December 31,</b>			
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<i>(RMB in thousands)</i>			
Government grants	4,708	5,880	2,885	6,195
Sales of equipment and reagents	–	–	10,969	1,524
Interest income	17,462	–	–	–
Others	343	235	202	150
<b>Total</b>	<b>22,513</b>	<b>6,115</b>	<b>14,056</b>	<b>7,869</b>

Among the government grants we received for the years ended December 31, 2018, 2019, 2020 and 2021, RMB4.7 million, RMB5.9 million, RMB2.9 million and RMB6.2 million were one-off or had fulfilled conditions from the government, respectively, which were recognized in profit or loss. An amount of RMB4.5 million, RMB5.9 million, RMB7.3 million and RMB6.8 million had unfulfilled conditions or other contingencies attached to such grants as of December 31, 2018, 2019, 2020 and 2021, respectively, which were recognized as deferred revenue in the consolidated statements of financial position.

## FINANCIAL INFORMATION

### Other Losses

Other losses primarily consist of losses on disposal of property and equipment. The following table sets forth a breakdown of our other losses for the periods indicated:

	For the year ended December 31,			
	2018	2019	2020	2021
	<i>(RMB in thousands)</i>			
Losses on disposal of equipment	640	223	1,174	666
Others	211	66	114	455
<b>Total</b>	<b>851</b>	<b>289</b>	<b>1,288</b>	<b>1,121</b>

### Fair Value Changes on Financial Assets at Fair Value through Profit or Loss

We recorded fair value changes on financial assets at fair value through profit or loss mainly (i) reflecting our investment in two companies engaged in consultancy services, namely Shenzhen Huaxia Cornerstone Zhiku Technology Co., Ltd. (深圳華夏基石智庫科技有限公司) and Hengqin Huaxia Cornerstone Yunkang Zhiku Health Technology Co., Ltd. (橫琴華夏基石雲康智庫健康科技有限公司), and one engaged in investment management, namely Shenzhen Huaxia Cornerstone Zhiku Service Co., Ltd. (深圳華夏基石智庫服務有限公司); and (ii) wealth management products, which represented a principal-guaranteed wealth management product purchased from an asset management company, which had been redeemed in February 2021. For details, see note 23 in the Accountants’ Report as set out in Appendix I to this document.

### Finance Costs – Net

Our finance income comprises interest income of bank savings. Our finance costs mainly comprise interest expenses on borrowings and interest on lease liabilities. The following table sets forth a breakdown of our finance income/(costs) for the periods indicated:

	For the year ended December 31,			
	2018	2019	2020	2021
	<i>(RMB in thousands)</i>			
<b>Finance income</b>				
Interest income from bank deposits	437	1,188	2,123	10,751
<b>Finance costs</b>				
Interest expenses on borrowings	(4,010)	(11,936)	(18,559)	(15,557)
Interests expenses on lease liabilities	(1,237)	(983)	(639)	(1,668)
<b>Total</b>	<b>(4,810)</b>	<b>(11,731)</b>	<b>(17,075)</b>	<b>(6,474)</b>

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## FINANCIAL INFORMATION

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### Share of Net Loss of Associates Accounted for Using the Equity Method

During the Track Record Period, our investments in associates accounted for using the equity method consisted of our 40% equity interest in Guangzhou Yunjia Health and Medical Technology Co., Ltd. and our 30% equity interest in Tianjin Hanyi Technology Co., Ltd.. Share of loss with aggregate amount of RMB4.0 million was recognized in relation to the start-up expenditure incurred in relation to Tianjin Hanyi Technology Co., Ltd., which would not be recovered. For details, see “—Description of Certain Items in the Consolidated Statements of Financial Position—Investments Accounted for Using the Equity Method.”

### Income Tax Credit/(Expenses)

Our income tax credit/(expenses) consists of current and deferred income taxes payable in the PRC by our subsidiaries.

Income tax provision in respect of our operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the year or period, based on existing legislation and interpretations and practices in respect thereof. The statutory tax rate was 25.0% for the Track Record Period. Certain of our subsidiaries in the PRC have been qualified as high and new technology enterprises under the relevant tax rules and regulations of the PRC, and accordingly, were subjected to a preferential income tax rate of 15.0% during the Track Record Period. Certain of our subsidiaries in the PRC are qualified as small enterprises under the relevant tax rules and regulations of the PRC, and accordingly, the part of their taxable income not exceeding RMB3 million are subject to a reduced corporate income tax rate of 20.0% during the Track Record Period. Our expenses related to research and development incurred as tax deductible expenses.

Our Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act of the Cayman Islands and, accordingly, is exempted from Cayman Islands income tax. Our subsidiaries incorporated in the Cayman Islands and BVI are not subject to any income tax. Our subsidiary incorporated in Hong Kong was not liable for income tax as it did not have any assessable profits arising in Hong Kong for the years ended December 31, 2018, 2019, 2020 and 2021.

For the years ended December 31, 2018, 2019, 2020 and 2021, our effective income tax rates, calculated as income tax expenses or credit divided by profit or loss before income tax, was 11.7%, -7.1%, 16.3% and 17.4%, respectively. For 2018 and 2019, we recorded income tax expenses that were incurred by our subsidiaries with taxable profit, while we recorded loss before income tax for the same periods, which was mainly attributable to the operating losses incurred by loss-making subsidiaries which were not tax deductible. During the Track Record Period and up to the Latest Practicable Date, we had paid all applicable taxes when due and there were no matters in dispute or unresolved with any tax authorities.

## FINANCIAL INFORMATION

### (Loss)/Profit from Discontinued Operations

We recorded (loss)/profit from discontinued operations reflecting operating results derived from our hospital management business and research and development institution, both of which were disposed of in January 2021 as part of our Reorganization.

In January 2021, we disposed of Guangzhou Yunkang Medical Technology Research Institute Co., Ltd. (廣州雲康醫學科技研究院有限公司), Shenzhen Yunkang Medical Service Co., Ltd. (深圳雲康醫學服務有限公司) and its four subsidiaries. During the Track Record Period, these disposed subsidiaries primarily engaged in (i) providing management services for non-profit community health clinics; and (ii) research and development of testing kits. We decided to discontinue these operations as part of our efforts to streamline our corporate structure. See “History, Reorganization and Corporate Structure—Major Acquisitions, Disposals and Mergers.”

The following table sets forth the results of discontinued operations for the periods indicated.

	For the year ended December 31,			
	2018	2019	2020	2021
	<i>(RMB in thousands)</i>			
<b>Loss from discontinued operations:</b>				
Operation in management of non-profit community health clinics	(6,180)	(6,265)	(9,592)	10,120
Operation in research & development activities	(15,420)	(13,890)	(545)	(725)
<b>Total</b>	<b>(21,600)</b>	<b>(20,155)</b>	<b>(10,137)</b>	<b>9,395</b>

The amount of non-profit community health clinics management fees for the years ended December 31, 2018, 2019, 2020 and 2021 was nil, RMB869,000, RMB1,062,000 and nil, respectively. The Community Clinics receive and consume the benefits provided by our Group. Revenue from provision of hospital management services is recognized over the period in which the services are rendered.

The management fee is computed based on a percentage of annual revenue of the Community Clinics on a yearly basis. The percentage was determined based on the result of discussion between the employee representatives and the representative of our Group in the executive committee meetings of the relevant Community Clinic. Such percentage was reviewed on an annual basis and has to be approved by the executive committee of the Community Clinic based on a simple majority vote.

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## FINANCIAL INFORMATION

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### COMPARISON OF RESULTS OF OPERATIONS

#### Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

##### *Revenue*

Our total revenue increased by 41.4% from RMB1,200.3 million in 2020 to RMB1,696.7 million in 2021, primarily due to a significant increase in revenue from diagnostic testing services for medical institution alliances. Our revenue from diagnostic outsourcing services increased as well.

##### *Diagnostic Outsourcing Services*

Revenue generated from diagnostic outsourcing services increased by 19.4% from RMB857.7 million for the year ended December 31, 2020 to RMB1,024.3 million for the year ended December 31, 2021, primarily because the increased number of COVID-19 tests we conducted due to the government-funded full screening project in mid-2021 in Guangdong province.

##### *Diagnostic Testing Services for Medical Institution Alliances*

Revenue generated from diagnostic testing services for medical institution alliances increased by 124.6% from RMB275.8 million for the year ended December 31, 2020 to RMB619.4 million for the year ended December 31, 2021, primarily due to the expansion of our on-site diagnostic center network, increasing from 164 as of December 31, 2020 to 275 as of December 31, 2021, and as a result of the increasing demand for our infectious disease diagnostic tests, in particular COVID-19 tests as more hospitals needed to build up their testing capabilities, and the recovery of our provision of genetic disease diagnostic tests from the COVID-19 pandemic and the increase in the number of our genetic disease diagnostic centers.

##### *Diagnostic Testing Services for Non-Medical Institutions*

Revenue generated from diagnostic testing services for non-medical institutions decreased by 20.5% from RMB66.8 million for the year ended December 31, 2020 to RMB53.1 million for the year ended December 31, 2021, primarily because a significant amount of non-medical institutions were closed in order to support the government-funded full screening project for COVID-19 tests in Guangdong province in mid-2021.

##### *Cost of Revenue*

Our cost of revenue increased by 46.5% from RMB544.4 million for the year ended December 31, 2020 to RMB797.6 million for the year ended December 31, 2021, primarily due to an increase in demand for our infectious disease diagnostic tests as a result of the government-funded full screening project for COVID-19 tests in Guangdong province in mid-2021, which caused increases in our cost of reagent and pharmaceuticals consumed, staff costs and transportation expenses.

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## FINANCIAL INFORMATION

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### *Gross Profit and Gross Profit Margin*

Our gross profit increased by 37.1% from RMB655.9 million for the year ended December 31, 2020 to RMB899.1 million for the year ended December 31, 2021, primarily due to a significant growth in our diagnostic testing services for medical institution alliances as a result of the increasing demand for our infectious disease diagnostic tests, in particular COVID-19 tests. Our gross profit margin decreased from 54.6% for the year ended December 31, 2020 to 53.0% for the year ended December 31, 2021, primarily due to a decrease in gross profit margin from COVID-19 tests because of its lower average selling price while the gross profit margins of our other test types remained relatively stable.

### *Selling Expenses*

Our selling expenses increased by 24.8% from RMB219.0 million for the year ended December 31, 2020 to RMB273.3 million for the year ended December 31, 2021, primarily due to (i) an increase in marketing expenses to promote our diagnostic testing activities; and (ii) an increase in staff costs as we hired more marketing and sales personnel in line with our business expansion.

### *Administrative Expenses*

Our administrative expenses increased by 45.1% from RMB104.8 million for the year ended December 31, 2020 to RMB152.1 million for the year ended December 31, 2021, primarily due to [REDACTED] of RMB[REDACTED] million, which were one-off in nature.

### *Net Impairment Losses on Financial Assets*

Our net impairment losses on financial assets increased by 335.8% from RMB5.3 million for the year ended December 31, 2020 to RMB23.1 million for the year ended December 31, 2021, mainly because (i) we recorded an increase in accounts receivable as of December 31, 2021 as we experienced relatively lower trade receivable settlement due to the outbreak of COVID-19 in Guangdong province in mid-2021 and (ii) certain state-owned medical institutions have not settled their accounts receivable with us in a timely manner that aged for over one year in relation to certain government-funded COVID-19 testing projects as they have prioritized their resources for containing the spread of the COVID-19 pandemic.

### *Other Income*

Our other income decreased from RMB14.1 million for the year ended December 31, 2020 to RMB7.9 million for the year ended December 31, 2021, primarily due to the decrease in our sales of equipment and reagents, partially offset by the increase in government grants from local authorities for supporting certain R&D projects.

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### *Other Losses*

Our other losses decreased from RMB1.3 million for the year ended December 31, 2020 to RMB1.1 million for the year ended December 31, 2021.

### *Fair Value Changes on Financial Assets at Fair Value through Profit or Loss*

Our fair value changes on financial assets at fair value through profit or loss decreased from RMB1.9 million to RMB0.3 million for the year ended December 31, 2021 mainly attributable to the redemption of certain wealth management product.

### *Finance Costs – Net*

Our net finance costs amounted to RMB17.1 million for the year ended December 31, 2020 and we recorded net finance costs of RMB6.5 million for the year ended December 31, 2021, primarily due to the increased interest income resulting from our increased bank deposits.

### *Share of Net Loss of Associates Accounted for Using the Equity Method*

We recorded share of net loss of associates accounted for using the equity method of RMB1.6 million and nil for the year ended December 31, 2020 and for the year ended December 31, 2021, respectively.

### *Income Tax Credit/(Expenses)*

Our income tax expenses increased by 49.9% from RMB52.5 million for the year ended December 31, 2020 to RMB78.7 million for the year ended December 31, 2021, primarily because our effective tax rate was 16.3% for the year ended December 31, 2020, compared to 17.4% for the year ended December 31, 2021.

### *(Loss)/Profit from Discontinued Operations*

Our loss from discontinued operations was RMB10.1 million for the year ended December 31, 2020, primarily reflecting loss from operations in management of non-profit community health clinics, and to a lesser extent, loss from operations in research and development activities. Our profit from discontinued operations was RMB9.4 million for the year ended December 31, 2021, primarily due to profit from operations in management of non-profit community health clinics, partially offset by loss from operations in research and development activities.

### *Profit for the Period*

As a result of the foregoing, our profit for the period increased by 46.8% to RMB381.9 million for the year ended December 31, 2021 from RMB260.2 million for the same period in 2020.

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## FINANCIAL INFORMATION

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### Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

#### *Revenue*

Our total revenue increased by 77.1% from RMB677.8 million in 2019 to RMB1,200.3 million in 2020, primarily due to an increase in revenue generated from diagnostic outsourcing services, driven by an increase in revenue from infectious disease diagnostic tests, and an increase in revenue generated from the expansion of our on-site diagnostic centers.

#### *Diagnostic Outsourcing Services*

Revenue from diagnostic outsourcing services increased by 85.2% from RMB463.1 million in 2019 to RMB857.7 million in 2020, primarily due to a significant increase in revenue from infectious disease diagnostic tests, which was mainly due to high demand for COVID-19 tests. In 2020, diagnostic outsourcing services in relation to COVID-19 tests represented 53.8% of our total diagnostic outsourcing services revenue for the same period. The increase in revenue from infectious disease diagnostic tests was partially offset by a decrease in revenue from genetic disease diagnostic tests and routine diagnostic tests, primarily due to a decrease in demand from hospitals and other medical institutions for such tests during the COVID-19 pandemic as hospitals operated at limited capacities and shift resources, and due to fewer patient visits for other diseases.

#### *Diagnostic Testing Services for Medical Institution Alliances*

Revenue generated from diagnostic testing services for medical institution alliances increased by 66.1% to RMB275.8 million in 2020 from RMB166.1 million in 2019, which primarily reflected the expansion of our on-site diagnostic center network, increasing from 132 as of December 31, 2019 to 199 as of December 31, 2020 and as a result of the increasing demand for our infectious disease diagnostic tests, in particular COVID-19 tests, due to the COVID-19 pandemic.

#### *Diagnostic Testing Services for Non-Medical Institutions*

Revenue from diagnostic testing services for non-medical institutions increased by 37.3% to RMB66.8 million in 2020 from RMB48.7 million in 2019, primarily driven by the increase in the demand for COVID-19 tests from non-medical institutions as a result of the COVID-19 pandemic.

#### *Cost of Revenue*

Our cost of revenue increased by 43.8% to RMB544.4 million in 2020 from RMB378.6 million in 2019, primarily driven by the increase in the demand for our infectious disease diagnostic tests as a result of the COVID-19 pandemic which accounted for approximately 36.6% of the total cost of revenue, which caused increases in our cost of reagent and pharmaceuticals consumed, staff costs and transportation expenses.



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## FINANCIAL INFORMATION

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### *Gross Profit and Gross Profit Margin*

Our gross profit increased significantly by 119.2% to RMB655.9 million in 2020 from RMB299.2 million in 2019 mainly because we leveraged our experience and foundation in infectious diseases and were able to provide a significant volume of infectious disease diagnostic tests to meet the large market demand for COVID-19 tests. Our gross profit margin increased from 44.1% in 2019 to 54.6% in 2020, primarily because our gross profit margins from diagnostic outsourcing services increased from 42.3% to 54.6% and gross profits from this accounted for a larger portion of our total gross profit. The increases in gross profit margin from diagnostic outsourcing services was primarily attributable to the increase in volume of COVID-19 tests, which had a relatively higher gross profit margin in early stage of the pandemic. In addition, we were able to obtain volume discounts and achieve economies of scale in line with the increase in volume. The gross profit margin for our diagnostic testing services for medical institution alliances was 49.3% in 2019 and 51.9% in 2020.

### *Selling Expenses*

Our selling expenses increased by 13.7% to RMB219.0 million in 2020 from RMB192.7 million in 2019, primarily due to (i) an increase in service fees paid to the third-party marketing service providers in line with the increased scale of our business and sales and marketing activities to further expand our business outreach; (ii) an increase in travelling and entertainment expenses attributable to several in-house marketing and promotion events we held in 2020; and (iii) an increase in staff costs due to an increase in the number of our in-house sales and marketing staff. As a percentage of revenue, our selling expenses decreased from 28.4% in 2019 to 18.2% in 2020, primarily because the volume of infectious disease diagnostic tests, especially COVID-19 tests, increased significantly due to high demand of COVID-19 tests, which did not require significant marketing and promotion efforts.

### *Administrative Expenses*

Our administrative expenses decreased by 7.0% to RMB104.8 million in 2020 from RMB112.7 million in 2019, primarily due to a decrease in consultancy and professional service fees which primarily represented a one-time consultant fee paid to an industry consultant we engaged in 2019 to conduct market research and analysis. In addition, the decrease of our administrative expenses was also attributable to a decrease in staff costs as we enjoyed favorable government policies in relation to social insurance and housing provident fund contributions.

### *Net Impairment Losses on Financial Assets*

We recorded net impairment losses on financial assets of RMB5.3 million in 2020, and net impairment losses on financial assets of RMB6.4 million in 2019, based on our assessment of the recoverability of certain trade receivables.

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### *Other Income*

Our other income increased to RMB14.1 million in 2020 from RMB6.1 million in 2019, primarily because we recorded sales of equipment and reagents of RMB11.0 million in 2020, partially offset by a decrease in government grants received in 2020, which were mainly one-off in nature.

### *Other Losses*

Our other losses increased significantly to RMB1.3 million in 2020 from RMB0.3 million in 2019, primarily due to the adjustment on our fixed assets at the end of 2020 and the disposal of certain fixed assets with respect to diagnostic instruments and office equipment.

### *Fair Value Changes on Financial Assets at Fair Value through Profit or Loss*

Our fair value changes on financial assets at fair value through profit or loss decreased to RMB1.9 million in 2020 from RMB9.8 million in 2019 primarily because of the fair value changes in the two companies engaging in consultancy services.

### *Finance Costs – Net*

Our net finance costs increased to RMB17.1 million in 2020 from RMB11.7 million in 2019, primarily due to an increase in finance costs due to an increase in bank borrowings.

### *Share of Net Loss of Associates Accounted for Using the Equity Method*

We recorded share of net loss of associates accounted for using the equity method of RMB2.0 million in 2019 in relation to our investment in two associate companies. We recorded share of net loss of associates accounted for using the equity method of RMB1.6 million in 2020.

### *Income Tax Credit/(Expenses)*

We recorded income tax expenses of RMB52.5 million in 2020 and recorded income tax expenses of RMB0.8 million in 2019, and our effective tax rate was 16.3% in 2020, compared to -7.1% in 2019.

### *Loss from Discontinued Operations*

Our loss from discontinued operations decreased to RMB10.1 million in 2020 from RMB20.2 million in 2019, primarily reflecting a decrease in loss from operations in research and development activities, and to a lesser extent, operations in management of non-profit community health clinics.

### *(Loss)/Profit for the Year*

As a result of the foregoing, our profit for the year was RMB260.2 million in 2020 and our loss for the year was RMB31.5 million in 2019.

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## FINANCIAL INFORMATION

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### Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

#### *Revenue*

Our revenue increased by 13.7% to RMB677.8 million for the year ended December 31, 2019 from RMB596.3 million for the year ended December 31, 2018, primarily due to increases in both revenue generated from diagnostic testing services for medical institution alliances and diagnostic outsourcing services. To a lesser extent, our revenue from diagnostic testing services for non-medical institutions increased as well.

#### *Diagnostic Outsourcing Services*

Revenue from diagnostic outsourcing services increased by 3.1% to RMB463.1 million for the year ended December 31, 2019 from RMB449.3 million for the year ended December 31, 2018, primarily due to increases in revenue generated from infectious disease diagnostic tests and pathology tests as a result of our successful business expansion in 2019 compared to 2018, which were partially offset by a decrease in revenue generated from genetic disease diagnostic tests as a result of a decrease in demand from hospital customers as they adjusted to changes in qualification requirements for genetic testing.

#### *Diagnostic Testing Services for Medical Institution Alliances*

Revenue from diagnostic services increased by 64.8% to RMB166.1 million for the year ended December 31, 2019 from RMB100.8 million for the year ended December 31, 2018, primarily due to increases in revenue generated from genetic disease diagnostic tests and pathology tests in 2019 compared to 2018, which in turn reflected the growth of our on-site diagnostic center network, which increased from 79 as of December 31, 2018 to 132 as of December 31, 2019.

#### *Diagnostic Testing Services for Non-Medical Institutions*

Revenue from diagnostic testing services for non-medical institutions increased to RMB48.7 million for the year ended December 31, 2019 from RMB46.2 million for the year ended December 31, 2018 as a result of an increase in demand for report consultation and hospital referrals.

#### *Cost of Revenue*

Our cost of revenue increased by 6.4% to RMB378.6 million for the year ended December 31, 2019 from RMB355.9 million for the year ended December 31, 2018, primarily due to an increase in staff costs as we recruited more operational and testing staff along with the increase in the volume of our diagnostic testing services, partially offset by the volume discount we achieved as a result of the increasing number of supplies we procured to meet our customers' needs.

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## FINANCIAL INFORMATION

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### *Gross Profit and Gross Profit Margin*

Our gross profit increased by 24.5% to RMB299.2 million for the year ended December 31, 2019 from RMB240.4 million for the year ended December 31, 2018 in line with the increase in volume of diagnostic testing services we provided. Our gross profit margin increased from 40.3% for the year ended December 31, 2018 to 44.1% for the year ended December 31, 2019, primarily due to the increase in gross profit margin of our diagnostic testing services for medical institution alliances from 42.5% to 49.3% which accounted for a larger percentage of our total gross profit from 17.8% in 2018 to 27.4% in 2019. In addition, our gross profit margin for diagnostic outsourcing services increased from 39.0% in 2018 to 42.3% in 2019. The increases in gross profit margin were primarily due to effective cost control measures we took to optimize supplier selection, procuring domestic pharmaceuticals and consumables, which are generally cheaper than the imported pharmaceuticals and consumables we previously used, and economies of scale we achieved, as certain fixed costs remained at similar levels as we expanded our business.

### *Selling Expenses*

Our selling expenses increased by 3.0% to RMB192.7 million for the year ended December 31, 2019 from RMB187.1 million for the year ended December 31, 2018, primarily due to an increase in marketing and promotion expenses, which was generally in line with the increase in our revenue and the expansion of our business. As a percentage of revenue, our selling expenses decreased from 31.4% in 2018 to 28.4% in 2019, which was primarily attributable to the improvement in efficiencies of our sales and marketing staff.

### *Administrative Expenses*

Our administrative expenses increased by 7.7% to RMB112.7 million for the year ended December 31, 2019 from RMB104.6 million for the year ended December 31, 2018, primarily due to (i) an increase in consultancy and professional service fees as we engaged industry consultant conduct market research and analysis and (ii) an increase in staff costs as we grew our operations.

### *Net Impairment Losses on Financial Assets*

We recorded net impairment losses on financial assets of RMB6.4 million for the year ended December 31, 2019, and net impairment losses on financial assets of RMB0.1 million for the year ended December 31, 2018, based on our assessment of the recoverability of certain trade receivables. The expected credit losses for trade receivables with aging of 181 to 365 days increased in 2019 primarily attributable to the financial conditions of certain customers.

### *Other Income*

Our other income decreased by 72.9% to RMB6.1 million for the year ended December 31, 2019 from RMB22.5 million for the year ended December 31, 2018, primarily due to a decrease in interest income from RMB17.5 million in 2018 to nil in 2019, as we turned the fixed time deposits, which expired in 2018, into demand deposits to support our business operations.

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### *Other Losses*

We recorded net other losses of RMB0.3 million for the year ended December 31, 2019, and RMB0.9 million for the year ended December 31, 2018, which primarily included losses on disposal of equipment of RMB0.6 million.

### *Fair Value Changes on Financial Assets at Fair Value through Profit or Loss*

Our fair value changes on financial assets at fair value through profit or loss increased to RMB9.8 million for the year ended December 31, 2019 from RMB2.5 million for the year ended December 31, 2018 primarily due to fair value changes of the two companies engaging in consultancy services.

### *Finance Costs – Net*

Our finance income increased by 200.0% to RMB1.2 million for the year ended December 31, 2019 from RMB0.4 million for the year ended December 31, 2018. Our finance costs increased by 148.1% to RMB12.9 million for the year ended December 31, 2019 from RMB5.2 million for the year ended December 31, 2018, primarily due to an increase in interests paid as a result of the increase in bank borrowings in 2019. As a result of the foregoing, we recorded net finance costs of RMB11.7 million for the year ended December 31, 2019 and net finance costs of RMB4.8 million for the year ended December 31, 2018.

### *Share of Net Loss of Associates Accounted for Using the Equity Method*

We recorded share of net loss of associates accounted for using the equity method of RMB0.5 million for the year ended December 31, 2018, and RMB2.0 million for the year ended December 31, 2019.

### *Income Tax Credit/(Expenses)*

In 2018, we had an income tax credit of RMB3.8 million whereas in 2019 we had an income tax expenses of RMB0.8 million. We recorded income tax expenses that were incurred by our subsidiaries with taxable profit, while we recorded loss before income tax for the same periods, which was mainly attributable to the operating losses incurred by loss-making subsidiaries which were not tax deductible. Our effective income tax rate decreased to -7.1% for the year ended December 31, 2019 from 11.7% for the year ended December 31, 2018, primarily reflecting a decrease in losses incurred by certain subsidiaries which were not deductible for tax in 2019.

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### *Loss from Discontinued Operations*

Our loss from discontinued operations decreased by 6.5% to RMB20.2 million for the year ended December 31, 2019 from RMB21.6 million for the year ended December 31, 2018, primarily reflecting decreases in operating loss and cost of sales associated with provision of management services to non-profit community health clinics.

### *Loss for the Year*

As a result of the foregoing, our loss for the year decreased to RMB31.5 million for the year ended December 31, 2019 from RMB50.3 million for the year ended December 31, 2018.

## DESCRIPTION OF CERTAIN ITEMS IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

### **Property and Equipment**

Our property and equipment consist of properties and buildings, medical equipment, vehicles, furniture and office equipment, leasehold improvement and right-of-use assets. Our property and equipment gradually increased from RMB99.9 million as of December 31, 2018 to RMB102.7 million as of December 31, 2019, primarily because we leased certain premises as offices in 2018 and we procured more medical equipment to support our business growth. Our property and equipment further increased to RMB277.1 million as of December 31, 2020 primarily because we successfully obtained the land use rights in relation to our new headquarters in 2020. Our property and equipment further increased to RMB485.2 million as of December 31, 2021 primarily because we procured more medical equipment to support our business growth, partially offset by depreciation charges and the addition of construction in progress.

### **Intangible Assets**

Our intangible assets represent our software associated with our business and daily operation and contractual rights to provide management services. Contractual rights to provide management services represent the hospital management agreements we have entered with the 31 non-profit community health clinics during the Track Record Period. We provide management services to these clinics for a period for 40 years and such contractual rights are carried at cost less accumulated amortization which is calculated using the straight-line method to allocate the cost of contractual rights over the useful lives of 40 years. Our intangible assets increased from RMB39.7 million as of December 31, 2018 to RMB55.1 million as of December 31, 2019, primarily due to an increase in contractual rights to provide management services as we entered into hospital management agreements with non-profit community health clinics. Our intangible assets decreased from RMB55.1 million as of December 31, 2019 to RMB6.5 million as of December 31, 2020, primarily because we recategorized the contractual rights to provide management services as assets associated with the disposal group under current assets and we amortized certain software. Our intangible assets further decreased to RMB5.7 million as of December 31, 2021 primarily due to amortization in our software. The cost of intangible

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assets in relation to the contractual rights to provide management services was recognized based on cost incurred when we acquired these contractual rights at initial acquisition, of which the cost amount was determined and agreed in the relevant hospital management agreements based on several factors, including the average number of patients per day, local public health expenditure, medicine cost rate and staff costs. For details of our disposal group, see note 13 in the Accountant’s Report set out in Appendix I to this document.

The following table sets forth a breakdown of our intangible assets as of the dates indicated:

	As of December 31,			
	2018	2019	2020	2021
	<i>(RMB in thousands)</i>			
Software	17,523	13,579	6,509	5,675
Contractual rights to provide management services	22,203	41,516	–	–
<b>Total</b>	39,726	55,095	6,509	5,675

### Investments Accounted for Using the Equity Method

Our investments accounted for using the equity method consisted of our investments in Tianjin Hanyi Technology Co., Ltd., for a health city project, which is to construct a healthcare industry county, and in Guangzhou Yunjia Health and Medical Technology Co., Ltd., for a healthcare internet platform construction project. The health city project is designed to construct training hospitals and medical universities in Yunnan province. The healthcare internet construction platform is designed to construct an internet platform, utilizing cloud technology and big data for the transmission of healthcare data. We initially invested RMB4.0 million in Tianjin Hanyi Technology Co., Ltd. and RMB20.0 million in Guangzhou Yunjia Health and Medical Technology Co., Ltd. for the health city project. Our investments accounted for using the equity method increased from RMB3.5 million as of December 31, 2018 to RMB21.6 million as of December 31, 2019, primarily because we increased our investment in Guangzhou Yunjia Health and Medical Technology Co., Ltd. in 2019. Our investments accounted for using the equity method decreased from RMB21.6 million as of December 31, 2019 to RMB20.0 million as of December 31, 2020, primarily because we recognized share of loss of RMB1.6 million in relation to its start-up expenditures in 2020 which would not be recovered as the health city project we collaborated with Tianjin Hanyi Technology Co., Ltd. was suspended as we decided to focus our business on diagnostic outsourcing services and diagnostic testing services for medical institution alliances. Our investments accounted for using the equity method was nil as of December 31, 2021 because we subsequently withdrew the investment in Guangzhou Yunjia Health and Medical Technology Co., Ltd. and received the refund of the investment in the amount of RMB20 million.

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### **Financial Assets at Fair Value through OCI (“FVOCI”)**

Our financial assets at FVOCI mainly represent our minority interests in three companies, which we invested in to expand our business in the healthcare industry. These included our investment of (i) a total of RMB74.5 million for a 15.28% of equity interest in a company in Guangzhou from 2015 to 2019; (ii) RMB1.5 million for a 19.0% of equity interest of a company in Shenzhen in 2017; and (iii) RMB100.0 million for a 10.0% of equity interest in a limited liability partnership enterprise in Shenzhen in 2019. All of these three entities primarily engage in investment management business covering a full range of medical operation services. We recorded financial assets at FVOCI of RMB53.8 million, RMB187.6 million, RMB108.7 million and RMB110.0 million as of December 31, 2018, 2019, 2020 and 2021, respectively. Our fair value changes of financial assets at FVOCI amounted to a loss of RMB11.2 million, and a gain of RMB10.4 million, RMB15.8 million, and RMB3.3 million for the years ended December 31, 2018, 2019, 2020 and 2021, respectively. We have terminated our investment in the limited liability partnership enterprise in Shenzhen as we decided to focus our business on diagnostic testing services for medical institution alliances and diagnostic outsourcing services and sold our interests in such entity in November 2020, and our investment amount of RMB100.0 million has been repaid to us.

### **Financial Assets at Fair Value through Profit or Loss (“FVTPL”)**

Our financial assets at FVTPL mainly represent our minority interests in two companies engaged in consultancy services and one company engaged in healthcare related investment management, which we invested in to enhance our capabilities and realize business synergies. These included (i) our investment of RMB20.0 million in a consulting company in Shenzhen (representing 2.2% of its registered capital) in December 2018; (ii) our investment of RMB20.0 million in a consulting company in Shenzhen (representing 10.0% of its registered share capital) in January 2019; and (iii) our investment of RMB5.0 million in a healthcare related investment management company in Zhuhai (representing 15.0% of its registered share capital) primarily engaging in November 2016. We recorded financial assets at FVTPL of RMB47.5 million, RMB57.4 million, RMB209.2 million and RMB58.2 million as of December 31, 2018, 2019, 2020 and 2021, respectively. Our fair value changes on financial assets at FVTPL amounted to RMB2.5 million, RMB9.8 million, RMB1.9 million and RMB0.3 million for the years ended December 31, 2018, 2019, 2020 and 2021, respectively.



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### Inventories

Our inventories primarily consist of reagents and pharmaceuticals used in diagnostic tests. The following table sets forth our inventories as of the dates indicated:

	<b>As of/for the year ended December 31,</b>			
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<i>(RMB in thousands, except for days)</i>			
Reagent and pharmaceuticals	17,191	15,156	24,553	41,697
Inventory turnover days <sup>(1)</sup>	27	15	13	15

*Note:*

- (1) Inventory turnover days for a period are calculated by dividing the arithmetic mean of the opening and ending balance of inventories in that period by cost of revenue for the corresponding period and then multiply by 365.

Our inventories decreased by 11.6% to RMB15.2 million as of December 31, 2019 from RMB17.2 million as of December 31, 2018, primarily because we improved our inventory turnover rate to mitigate the expiration risk for our reagent and pharmaceuticals. Our inventories increased by 61.8% to RMB24.6 million as of December 31, 2020 from RMB15.2 million as of December 31, 2019 because we generally maintain higher inventory level prior to the national day and mid-autumn holidays. Our inventories increased by 69.8% from RMB24.6 million as of December 31, 2020 to RMB41.7 million as of December 31, 2021 because we strategically maintained higher inventory to meet the unpredictable demand for COVID-19 tests. Our inventory turnover days decreased from 27 days in 2018 to 15 days in 2019, primarily because we had a high inventory level as of January 1, 2018 as a result of high market price of reagents and consumables we used. Our inventory turnover days further decreased to 13 days in 2020, reflecting our efforts in improving our inventory turnover and mitigating the expiration risk for our reagent and pharmaceuticals. Our inventory turnover days increased to 15 days for the year ended December 31, 2021 because we had a higher inventory level at the end of 2021 in order to meet the demand of COVID-19 tests.

As of March 31, 2022, RMB38.4 million, or 92.2%, of our inventories as of December 31, 2021, had been consumed.

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### Trade Receivables

Our trade receivables primarily represent outstanding amounts due from our hospital customers for diagnostic outsourcing services and diagnostic testing services for medical institution alliances. During the Track Record Period, we generally granted our customers a credit period of up to 180 days. The following table sets forth our trade receivables as of the dates indicated:

	<b>As of/for the year ended December 31,</b>			
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<i>(RMB in thousands, except for days)</i>			
Trade receivables				
– Third parties	245,774	283,030	512,411	877,604
– Related parties	2,735	1,776	1,817	323
Less: allowance for impairment of trade receivables	(17,910)	(24,401)	(29,714)	(52,626)
<b>Total</b>	<b>230,599</b>	<b>260,405</b>	<b>484,514</b>	<b>825,301</b>
Trade receivables turnover days <sup>(1)</sup>	142	132	113	141

*Note:*

- (1) Trade receivables turnover days for a period are calculated by dividing the arithmetic mean of the opening and ending balance of trade receivables – net in that period by revenue for the corresponding period and then multiplying by 365.

Our trade receivables increased from RMB230.6 million as of December 31, 2018 to RMB260.4 million as of December 31, 2019, primarily due to an increase in trade receivables recorded from third-party customers. Our trade receivables increased from RMB260.4 million as of December 31, 2019 to RMB484.5 million as of December 31, 2020, primarily due to an increase in trade receivables from third parties as a result of an increase in our revenue and more invoices issued to our hospital customers in 2020. Our trade receivables increased from RMB484.5 million as of December 31, 2020 to RMB825.3 million as of December 31, 2021 because we experienced relatively lower trade receivable settlement due to the outbreak of COVID-19 in Guangdong province in mid-2021. Our trade receivables turnover days decreased from 142 days in 2018 to 132 days in 2019 and further decreased to 113 days in 2020, primarily reflecting a relatively lower increase in our trade receivables compared to our revenue growth in these periods. Our trade receivables turnover days increased from 113 days for the year ended December 31, 2020 to 141 days for the year ended December 31, 2021 because we experienced relatively lower trade receivable settlement from government funded entities due to the outbreak of COVID-19 in Guangdong province in mid-2021.

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We have established a credit control department to minimize our credit risk and maintain control over our outstanding receivables. Our management regularly review the settlement situations of customers with relatively long credit periods. For trade receivables, we generally follow up actively on settlement status to avoid overdue receivables. To measure the expected credit losses for trade receivables, we group trade receivables based on shared credit risk characteristics and aging. We also take forward looking information on macroeconomic factors affecting the ability of customers to settle the receivables into consideration when determining the expected credit losses. As of December 31, 2018, 2019, 2020 and 2021, we recorded impairment provision of RMB17.9 million, RMB24.4 million, RMB29.7 million and RMB52.6 million, respectively. The following table sets forth an aging analysis of trade receivables, based on invoice date, as of the dates indicated:

	<b>As of December 31,</b>			
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<i>(RMB in thousands)</i>			
Up to 180 days	199,544	230,400	440,301	628,062
181 days to 1 year	23,339	27,232	35,515	154,530
1 to 2 years	13,960	14,480	22,890	70,528
2 to 3 years	3,708	4,010	5,384	12,713
More than 3 years	7,958	8,684	10,138	12,094
<b>Total</b>	<b>248,509</b>	<b>284,806</b>	<b>514,228</b>	<b>877,927</b>

Our relatively substantial amount of trade receivables aged over 180 days was primarily due to the fact that certain of our major customers are state-owned hospitals and Chinese Center for Disease Control and Prevention (“**CDC**”) since 2020 for diagnostic outsourcing services and diagnostic testing services for medical institution alliances, the settlement with which is usually time-consuming and involves prolonged internal administrative procedures, which is in line with the industry norm as advised by Frost & Sullivan. Frost & Sullivan has further advised that even though the turnover days of trade receivables from customers such as hospitals are normally longer than those from private clinics, the risk of failing to settle such payments is relatively low as they are generally state-owned entities.

As of December 31, 2018, 2019, 2020 and 2021, we recorded impairment provision of RMB17.9 million, RMB24.4 million, RMB29.7 million and RMB52.6 million, respectively, which we believe were sufficient as of the end of each period during the Track Record Period. As of March 31, 2022, RMB238.5 million, RMB264.4 million, RMB433.3 million and RMB192.8 million of our trade receivables as of December 31, 2018, 2019, 2020 and 2021 had been subsequently settled, reflecting 96.0 %, 92.8%, 84.3% and 22.0% of our trade receivables as of the same date, respectively. Therefore, our Directors are of the view that a substantial amount of the trade receivables as of December 31, 2021 aged over 180 days will be able to be recovered. Based on the review of the relevant documents, including the impairment policy of trade receivables, trade receivables aging analysis and customer information provided by us, and discussions with the management of our Company and the Reporting Accountant, nothing material has come to the Joint Sponsors’ attention that prevents them to concur with the Directors’ view above, or otherwise suggests that the Directors’ view above is unreasonable.

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### Prepayments and Other Receivables

Our prepayments and other receivables primarily consist of (i) prepayments to suppliers, most of which are relating to medical equipment; (ii) prepayment for the health city project, which is a project that we invested in with other third parties, including a state-owned enterprise in Yunnan province, which was terminated in November 2020 as we decided to focus our business on diagnostic testing services for medical institution alliances for which we had received refund of a portion as of the Latest Practicable Date; (iii) prepayment to an IT service provider to improve the management efficiency of non-profit community health clinics, which was a business that we discontinued and for which the amounts were repaid to us in April and November 2020; (iv) prepayments for acquiring land use rights, which was acquired through public tender and will be used as our new headquarters, for which we paid certain deposits that were recorded as prepayments until we obtained the land use right certificate; (v) input VAT tax recoverable; and (vi) other receivables, which mainly include deposits, cash advance receivable, representing advances provided to employees for business purposes, loan receivables and non-current other receivables. Loans receivables as of December 31, 2018 and 2019 represented loans with a fixed interest rate of 4.0% per annum to non-profit community health clinics managed by Shenzhen Yunkang Medical Service Co., Ltd. Loans receivables as of December 31, 2020 represented our interest-free loans to a shareholder of Guangzhou Yunjia Health and Medical Technology Co., Ltd. (“**Guangzhou Yunjia**”). The loans were provided to maintain our long term relationship with Guangzhou Yunjia and further facilitate our cooperation with it to develop and build up our healthcare internet construction platform. As the project was subsequently suspended, the loans were fully repaid to us in February 2021. The following table sets forth a breakdown of our prepayments and other receivables as of the dates indicated.

	As of December 31,			
	2018	2019	2020	2021
	<i>(RMB in thousands)</i>			
<b>Included in current assets</b>				
<i>Prepayments</i>				
– Prepayments to third parties				
suppliers	19,576	23,147	9,330	4,901
– Prepayments to related parties				
suppliers	–	68	710	–
– Tax recoverable	1,965	3,865	758	1,966
– Prepayment for the				
construction materials	–	–	98,000	–
– Prepayments for				
[REDACTED]	–	–	4,010	9,426
	21,541	27,080	112,808	16,293

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	As of December 31,			
	2018	2019	2020	2021
	<i>(RMB in thousands)</i>			
<i>Other receivables</i>				
– Receivables for the Health City Project	–	–	170,000	–
– Deposits receivables	1,892	2,956	4,050	5,662
– Cash advance to employees	2,136	1,427	291	1,418
– Loans receivables	1,765 <sup>(1)</sup>	16,103 <sup>(1)</sup>	62,700 <sup>(1)</sup>	–
– Amounts due from related parties	30	471	1,199	21,220
– Others	274	720	16	–
	6,097	21,677	238,256	28,300
Less: allowance for impairment of other receivables	(119)	(21)	(16)	(177)
	5,978	21,656	238,240	28,123
	27,519	48,736	351,048	44,416

*Note:*

- (1) Our loans receivables increased from RMB1.8 million as of December 31, 2018 to RMB16.1 million as of December 31, 2019 primarily because more non-profit community health clinics managed by Shenzhen Yunkang Medical Services Co., Ltd have obtained loans from us and we provided an interest-free loan of RMB5 million to a shareholder of Guangzhou Yunjia with respect to our healthcare internet platform construction project. Our loans receivables further increased to RMB62.7 million as of December 31, 2020 primarily because of an additional interest-free loan of RMB57.7 million provided to a shareholder of Guangzhou Yunjia with respect to our healthcare internet platform construction project. The loans were fully repaid to us in February 2021.

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	As of December 31,			
	2018	2019	2020	2021
	<i>(RMB in thousands)</i>			
<b>Included in non-current assets</b>				
<i>Prepayments</i>				
– Prepayment for the Health City Project	238,000	298,000	–	–
– Prepayment for equipment and IT system development	40,000	65,200	–	–
– Prepayments for equipment from third parties	–	–	–	15,419
– Prepaid consideration of land use rights	–	27,420	–	–
	278,000	390,620	–	15,419
<i>Other receivables</i>				
– Amount due from a related party	10,000	10,000	10,000	–
– Deposits	–	–	–	1,808
	288,000	400,620	10,000	17,227
	315,519	449,356	361,048	61,643

### ***Prepayments for Equipment from Third Parties***

As of December 31, 2021, we had prepayments for equipment from third parties of RMB15.4 million, which are mainly relating to the procurement of medical equipment for the ICLs in relation to the new ICLs we plan to build, details of which are set forth in the section headed “Summary – Recent Developments and No Material Adverse Change.” In particular, over 50% of these prepayments were made to a Shanghai-based PCR testing equipment company, which was established in 2003 and has business relationship with us since 2021. As of March 31, 2022, we had received the medical equipment in relation to substantially all of these prepayments.

Our Directors confirm that to the best of their knowledge, information and belief, except for Da An Gene, each of these suppliers (including their shareholders, directors, or senior management, or any of their respective associates) does not have any other past or present relationships (including, without limitation, business, employment, family, financing or otherwise) with our Company, our subsidiaries, our shareholders, Directors or senior management, or any of their respective associates.

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### *Prepayments that Subsequently Cancelled*

During the Track Record Period, certain prepayments we made were subsequently cancelled and repaid to us.

- In November 2018, we made prepayment of RMB40.0 million in respect to a project for community clinics informatisation construction. The payee is an Independent Third Party whose management has relevant experience in the development of facial recognition technology system. We were acquainted with such payee at a seminar in relation to the national equities exchange and quotations market in China. The payee was experienced in different industries such as hotel management, car park and WiFi customer information grouping, which involves big data analysis of customer information. We believe such experiences can assist us to better understand the target customer group of our non-profit community health clinics. As such, we engaged it with an aim to develop a facial recognition platform for our non-profit community health clinics. The project was subsequently suspended as we decided to focus our business operations on diagnostic outsourcing services and diagnostic testing services for medical institution alliances. After negotiation with the payee, the original contract was terminated without penalty and the prepayments were fully repaid to us in April 2020 and November 2020.
- In January 2019, we made prepayment of RMB3.2 million to a payee for importing glucose products from the United States for its plan to offer glucose tolerance testing service at community health clinics. The payee is an Independent Third Party who has rich experience in importing medical reagents and pharmaceutical products into China. We were acquainted with such payee through recommendations by industry peers. However, due to the impact of the trade tensions between China and the United States, the payee and us concluded that the contract cannot be performed and shall be terminated without penalty. In the meantime, with the outbreak of COVID-19 pandemic, we decided to shift our business focus to develop COVID-19 testing capabilities. As such, the prepayments of RMB3.2 million were fully repaid to us in 2020.
- In January 2019, we made prepayment of RMB22.0 million to a payee for importing certain medical equipment such as micro triple quadrupole mass spectrometry and desktop sequencer from the United States. The payee is an Independent Third Party, who has relevant experience in importing medical equipment. We were acquainted with such payees through recommendations by industry peers. However, due to the impact of the trade tensions between China and the United States and COVID-19 outbreak, the payee and us later concluded that the contract cannot be fulfilled and shall be terminated without penalty. In the meantime, with the outbreak of COVID-19 pandemic, we decided to shift our business focus to develop COVID-19 testing capabilities. As such, the prepayments of RMB22.0 million was fully repaid to us in 2020.

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- In December 2020, we made prepayment of RMB98.0 million for the purchase of construction materials for our new headquarters. The payee is an Independent Third Party. We were acquainted with such payee through public tenders and this payee presented the most favorable commercial terms during the public center. Nevertheless, the payee subsequently realized that it cannot meet our expected delivery schedule and it began to negotiate with us for the termination of such contract. The contract was terminated without penalty and the prepayments were fully repaid to us in February 2021.

Our Directors confirm that to the best of their knowledge, information and belief, each of these payees (including their shareholders, directors, or senior management, or any of their respective associates) does not have any other past or present relationships (including, without limitation, business, employment, family, financing or otherwise) with our Company, our subsidiaries, our shareholders, Directors or senior management, or any of their respective associates.

Our prepayments and other receivables increased to RMB449.4 million as of December 31, 2019 from RMB315.5 million as of December 31, 2018, primarily due to an increase in prepayments to equipment supplier for purchase of medical equipment, which was partially refunded in early 2020, and prepayments for acquiring land use rights, which was acquired through public tender and will be used as our new headquarters. Our prepayments and other receivables decreased to RMB361.0 million as of December 31, 2020 from RMB449.4 million as of December 31, 2019, primarily due to (i) a decrease in the prepayment for the IT system development and the health city project as there was no such prepayment as of December 31, 2020; and (ii) the prepaid consideration for the land use rights being reclassified to property, plant and equipment, partially offset by the prepayments of construction materials for our new headquarters. Our prepayments and other receivables decreased to RMB61.6 million as of December 31, 2021 from RMB361.0 million as of December 31, 2020, primarily due to (i) a decrease in receivables for the health city project as such receivables were settled as of December 31, 2021; (ii) a decrease in prepayment for the construction materials, as such amounts were refunded to us in February 2021 after we terminated the relevant procurement arrangement; and (iii) a decrease in loans receivable, as such loans were repaid in February 2021, which is offset by the prepayments for equipment to third party of approximately RMB15.4 million, which is expected to be transferred to non-current assets by May 2022.

With respect to our loans provided to third parties during the Track Record Period, as advised by our PRC Legal Advisors, any financing arrangements or lending transactions between non-financial institutions is prohibited by Article 61 of the General Lending Provisions. Furthermore, pursuant to Article 73 of the General Lending Provisions, PBOC may impose a fine on the non-compliant lender of one to five times of the income received by the lender from such loans. Notwithstanding the General Lending Provisions, the Supreme People’s Court has made new interpretations concerning financing arrangements and lending transactions between non-financial institutions under the Judicial Interpretations on Private Lending Cases. According to Article 10 of the Judicial Interpretations on Private Lending Cases, the Supreme People’s Court recognizes the validity and legality of financing



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arrangements and lending transactions between non-financial institutions so long as certain requirements, such as the interest rates charged, are satisfied and there is no violation of mandatory provisions of applicable laws and regulations. Our PRC Legal Advisors advised that, under the Judicial Interpretations on Private Lending Cases, PRC courts will support a non-financial institution’s claim for interests on loans as long as the annual interest rate does not exceed four times of the loan prime rate, as published by the National Interbank Funding Center, for loans with maturities of one year applicable on the date of loan agreement, or other interest rate specified in the Judicial Interpretations on Private Lending Cases applicable on the date of such loan agreement. For details, please see “Risk Factors—Risks Relating to Our Financial Position and Prospects—Our lending activities may not be in compliance with the relevant PRC laws and regulations.”

As of the Latest Practicable Date, we had not been imposed any administrative penalty by government authorities, or become subject to any investigation relating to the interest-bearing loans to related parties. The annual interest rates of loans we granted did not exceed the maximum interest rate allowed by the Supreme People’s Court’s interpretation. In addition, based on the search conducted by our PRC Legal Advisors, as of the Latest Practicable Date, there was no record of any administrative penalties imposed by the local offices of PBOC against any non-financial enterprise as a result of granting of interest-bearing loans. Based on the above, our PRC Legal Advisors are of the view that the risk that we would become subject to any penalty with respect to our interest-bearing loans pursuant to the General Lending Provisions is low, and our interest-bearing loans do not constitute material non-compliance of any applicable laws and regulations.

### **Assets Associated with Disposal Group**

We disposed of certain subsidiaries to a related party in January 2021 as part of the Reorganization. These subsidiaries are mainly engaged in the provision of management services to non-profit community health clinics or in relation to research and development of testing kits, respectively. The associated assets relating to these entities, excluding amounts due to other companies of our Group, to be disposed of subsequent to December 31, 2020 were classified as assets associated with the disposal group as of December 31, 2020.

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### Cash and Cash Equivalents

Our cash and cash equivalents primarily consist of cash at bank and cash on hand. Most of our cash and cash equivalents were denominated in Renminbi during the Track Record Period. The following table sets forth a breakdown of our cash and cash equivalents as of the dates indicated:

	As of December 31,			
	2018	2019	2020	2021
	<i>(RMB in thousands)</i>			
Cash at bank	430,363	94,234	377,856	831,821
Cash on hand	21	21	20	20
	430,384	94,255	377,876	831,841
Less: Restricted cash				
– Deposits for letter of guarantee <sup>(1)</sup>	–	–	(21,118)	(21,118)
– Government grants received on behalf of joint applicants	(26,400)	(26,400)	(17,393)	(7,396)
– Specific fund from government grants <sup>(2)</sup>	(3,600)	(3,600)	(2,924)	(1,898)
– Other bank deposit	(4)	(300)	(606)	(734)
	(30,004)	(30,300)	(42,041)	(31,146)
<b>Cash and cash equivalents</b>	<b>400,380</b>	<b>63,955</b>	<b>335,835</b>	<b>800,695</b>

*Notes:*

- (1) Deposits for letter of guarantee are in relation to land use rights we are acquiring.
- (2) In 2018, we and nine other medical institutions jointly applied for government subsidies in relation to a digital pilot project. As an initiator, we received government subsidies totalling RMB30 million on behalf of all applicants, in which we were entitled to RMB3.6 million. As of December 31, 2018, 2019, 2020 and 2021, we collected an amount of RMB3.6 million, RMB3.6 million, RMB2.9 million and RMB1.9 million, respectively.

## FINANCIAL INFORMATION

### Trade and Other Payables

Our trade and other payables primarily consist of (i) trade payables due to suppliers for the procurement of reagent and pharmaceuticals used for our diagnostic testing services and due to subcontractors; (ii) other payables, which mainly represent other payables to related parties in relation to leased offices, government grants we received on behalf of joint applicants in connection with a digital pilot project, marketing and promotion expenses payable to third-party marketing service providers, payables related to contractual rights for managing non-profit community health clinics, accruals for miscellaneous expenses for business development expenses and others; (iii) accrued staff cost; and (iv) other taxes payable. Our trade payables are normally settled on terms less than six months. The following table sets forth our trade and other payables as of the dates indicated:

	As of December 31,			
	2018	2019	2020	2021
	<i>(RMB in thousands)</i>			
<b>Trade payables</b>				
– Third parties	80,601	98,999	136,996	168,369
– Related parties	34,478	38,854	39,490	192,175
	<u>115,079</u>	<u>137,853</u>	<u>176,486</u>	<u>360,544</u>
<b>Other payables</b>				
– Related parties	12,454	8,442	7,056	9,937
– Government grants received on behalf of joint applicants	26,400	26,400	17,393	7,396
– Marketing and promotion expenses payable	14,520	8,910	26,894	36,030
– Other accrued expenses	10,370	7,202	9,161	19,175
– Unpaid considerations of contractual rights to provide management services	11,704	4,486	–	–
– Unpaid consideration of FVOCI <sup>(1)</sup>	4,000	6,000	6,000	6,000
– Interests payables	713	373	851	739
– [REDACTED]	–	–	10,597	5,397
– Others <sup>(2)</sup>	6,978	3,647	7,159	7,605
	<u>87,139</u>	<u>65,460</u>	<u>85,111</u>	<u>92,279</u>
<b>Accrued staff cost</b>	27,121	47,557	59,764	92,043
<b>Other taxes payable</b>	4,318	7,338	7,208	11,797
	<u>233,657</u>	<u>258,208</u>	<u>328,569</u>	<u>556,663</u>
Trade payable turnover days <sup>(3)</sup>	109	120	106	122

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## FINANCIAL INFORMATION

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*Note:*

- (1) The unpaid consideration of FVOCI represents our unpaid consideration in an entity which primarily engages in investment business, which was fully settled in January 2022.
- (2) Primarily include deposits to certain service providers and other miscellaneous payables, such as payables to logistics service providers
- (3) Trade payable turnover days are calculated by dividing the arithmetic mean of the opening and ending balance of trade payables in that period by cost of revenue for the corresponding period and then multiplying by 365.

We manage the settlement of trade payables with consideration of our working capital levels. Our trade and other payables increased from RMB233.7 million as of December 31, 2018 to RMB258.2 million as of December 31, 2019 and further increased to RMB328.6 million as of December 31, 2020. Our trade and other payables increased from RMB328.6 million as of December 31, 2020 to RMB556.7 million as of December 31, 2021. The general increase of our trade payables during the Track Record Period was primarily due to the increase in trade payables to third-party suppliers in line with our business expansion. The increase in our trade payable as of December 31, 2021 was also in part due to an increase in trade payables due to Da An Gene Group as we purchased more supplies to accompany with our business expansion and increased demand for COVID-19 tests.

Our other payables decreased from RMB87.1 million as of December 31, 2018 to RMB65.5 million as of December 31, 2019, primarily due to a decrease in marketing and promotion expenses payable to third-party marketing service providers, reflecting our increased settlement levels for such payables; and a decrease in payable related to contractual rights as we further settled the unpaid considerations in relation to the non-profit community health clinics. Our other payables increased from RMB65.5 million as of December 31, 2019 to RMB85.1 million as of December 31, 2020, primarily due to an increase in marketing and promotion expenses payable to third-party marketing service providers as we managed our payable settlement based on working capital levels and receivable settlement schedules. Our other payables increased from RMB85.1 million as of December 31, 2020 to RMB92.3 million as of December 31, 2021, reflecting the increase in marketing and promotion expenses payable to third-party marketing service providers and mainly attributable to the accrued reimbursement expenses primarily due to business growth and we managed our payable settlement based on working capital levels and receivable settlement schedules.

During the Track Record Period, our trade payable turnover days were 109, 120, 106 and 122 days for the years ended December 31, 2018, 2019, 2020 and 2021, respectively. Our trade payable turnover days increased from 109 days in 2018 to 120 days in 2019 because we decided to prioritize settlement with third-parties over related parties and therefore it took a longer time for us to settle trade payables with related parties. Our trade payable turnover days decreased to 106 days in 2020 primarily reflecting an increase in prepayments to our suppliers during the

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## FINANCIAL INFORMATION

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COVID-19 pandemic. Our trade payable turnover days then increased to 122 days for the year ended December 31, 2021 because we decided to prioritize settlement with third-parties over related parties and therefore it took a longer time for us to settle trade payables with related parties.

As of March 31, 2022, 26.1%, or RMB94.2 million of our trade payables as of December 31, 2021 had been subsequently settled.

As of December 31, 2018, 2019, 2020 and 2021, we recorded other payables of government grants received on behalf of joint applicants in the amount of RMB26.4 million, RMB26.4 million, RMB17.4 million and RMB7.4 million, respectively. The government grants were related to a digital pilot project to establish a healthcare big data HDTS platform covering Guangzhou and Luohu district in Shenzhen, enabling residents in Guangzhou and Shenzhen to enjoy and utilize medical resources in this area. As the initiator of the project, we are entitled to receive the subsidies totalling RMB30.0 million on behalf of all of the ten applicants, in which we were entitled to receive RMB3.6 million in 2018 and 2019, respectively, and an additional amount of RMB1.3 million in 2020 due to the withdrawal of certain project participant. The other nine applicants include Sun Yat-sen University, two hospitals in Guangzhou, one hospital group in Luohu district of Shenzhen, four reputable healthcare IT service companies in Guangdong province and the Guangzhou branch of a leading PRC commercial bank. As of the Latest Practicable Date, all of the applicants had completed their internal bidding process and the digital pilot project was under development.

### **Liabilities Associated with Disposal Group**

We recorded liabilities associated with the disposal group of RMB12.6 million as of December 31, 2020.

### **Lease Liabilities**

Our lease liabilities are in relation to our leased office premises and equipment. Under HKFRS 16, we recognized a corresponding lease liability for our right of use in respect of all leases unless they qualify for low value or short-term leases. As of December 31, 2021, we, as a lessee, had outstanding current and non-current lease liabilities of RMB71.3 million.

## FINANCIAL INFORMATION

### NET CURRENT ASSETS

The table below sets forth a summary of our net current assets as of the dates indicated:

	As of December 31,				As of March 31,
	2018	2019	2020	2021	2022
					(Unaudited)
	<i>(RMB in thousands)</i>				
<b>Current assets</b>					
Inventories	17,191	15,156	24,553	41,697	83,328
Trade receivables	230,599	260,405	484,514	825,301	1,266,523
Other receivables and prepayment	27,519	48,736	351,048	44,416	67,954
Financial assets at fair value through profit or loss ("FVTPL")	–	–	150,000	–	–
Restricted cash	30,004	30,300	42,041	31,146	22,185
Cash and cash equivalents	400,380	63,955	335,835	800,695	657,817
Assets associated with disposal group	–	–	47,053	–	–
Total current assets	<u>705,693</u>	<u>418,552</u>	<u>1,435,044</u>	<u>1,743,255</u>	<u>2,097,807</u>
<b>Current liabilities</b>					
Trade and other payables	233,657	258,208	328,569	556,663	809,118
Borrowings	128,070	136,526	421,272	208,322	233,040
Lease liabilities	11,354	15,957	16,500	27,171	28,783
Current income tax liabilities	1,088	1,282	33,149	71,932	87,719
Deferred revenue	–	–	7,175	6,750	6,750
Liabilities associated with disposal group	–	–	12,601	–	–
Total current liabilities	<u>374,169</u>	<u>411,973</u>	<u>819,266</u>	<u>870,838</u>	<u>1,165,410</u>
<b>Net current assets</b>	<u><u>331,524</u></u>	<u><u>6,579</u></u>	<u><u>615,778</u></u>	<u><u>872,417</u></u>	<u><u>932,397</u></u>

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## FINANCIAL INFORMATION

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### Net Current Assets

Our net current assets decreased from RMB331.5 million as of December 31, 2018 to RMB6.6 million as of December 31, 2019, primarily due to (i) a decrease in cash and cash equivalents due to more costs and expenses incurred to fund our operations and expand our business including the Health City product and the acquisition of financial assets at FVOCI and purchase of land use right; and (ii) an increase in trade and other payables reflecting our increased procurement as our business expands, partially offset by increases in trade receivables and prepayments to suppliers in line with our business expansion.

Our net current assets increased from RMB6.6 million as of December 31, 2019 to RMB615.8 million as of December 31, 2020, primarily due to primarily because of (i) an increase in trade receivables in line with our revenue increase in 2020; (ii) an increase in prepayments and other receivables due to the prepayment for the construction materials in preparation for the construction of our new headquarters in Guangzhou in December 2020; (iii) an increase in cash and cash equivalents given our increasing cash inflow from operations, partially offset by increases in trade and other payables, which was in line with our business expansion; and (iv) a financial product we invested in December 2020.

Our net current assets increased by 41.7% from RMB615.8 million as of December 31, 2020 to RMB872.4 million as of December 31, 2021, primarily due to (i) an increase in cash and cash equivalents and an increase in trade receivables, which was in line with our business growth and was partially offset by a decrease in prepayments and other receivable; and (ii) a decrease in borrowings, partially offset by increases in trade and other payables and current tax liabilities.

Our net current assets increased by 6.9% from RMB872.4 million as of December 31, 2021 to RMB932.4 million as of March 31, 2022, primarily due to an increase in trade receivables and inventories due to business growth and more purchase of reagents and consumables catering for high demand of COVID-19 tests, partially offset by a decrease in cash and cash equivalents and an increase in current liabilities including the trade and other payables due to more purchase of reagent, consumables and equipments in 2022.

### Net Assets

As of January 1, 2018, our net assets were RMB873.1 million. Our net assets decreased to RMB811.6 million as of December 31, 2018, primarily reflecting a loss for the year of 2018 of RMB50.3 million, which was partially offset by negative changes in fair value of equity investments at FVOCI, net of tax, of RMB11.2 million.

Our net assets slightly decreased from RMB811.6 million as of December 31, 2018 to RMB790.4 million as of December 31, 2019, primarily reflecting loss for the year of 2019 of RMB31.5 million, which was partially offset by positive changes in fair value of equity investments at FVOCI, net of tax, of RMB10.4 million.

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Our net assets increased from RMB790.4 million as of December 31, 2019 to RMB1,066.4 million as of December 31, 2020, primarily reflecting our profit for the year of 2020 of RMB260.2 million and positive changes in fair value of equity investments at FVOCI, net of tax, of RMB15.8 million.

Our net assets increased from RMB1,066.4 million as of December 31, 2020 to RMB1,451.6 million as of December 31, 2021, primarily reflecting our profit for the year ended December 31, 2021 of RMB381.9 million and positive changes in fair value of equity investments at FVOCI, net of tax, of RMB3.3 million.

For further details on the equity movement of our Group, see “Appendix I – Accountant’s Report – Consolidated statements of changes in equity.”

## LIQUIDITY AND CAPITAL RESOURCES

### Working Capital

Our principal use of cash during the Track Record Period was for working capital purposes. Our main source of liquidity has been generated from cash flow from operations and borrowings. As of March 31, 2022, being the latest practicable date for determining our indebtedness, we had capital resources of RMB973.9 million, consisting of cash and cash equivalents of RMB657.8 million, and unutilized bank facilities of RMB316.1 million. In the foreseeable future, we expect such sources to continue to be our principal sources of liquidity and we may use a portion of the [REDACTED] from the [REDACTED] to finance some of our capital requirements. Our Directors are of the opinion that, after taking into account the financial resources available to us including the estimated [REDACTED] to be received by our Company from the [REDACTED], the existing borrowings and our internally generated funds, we have sufficient working capital to satisfy our requirements for at least the next 12 months following the date of this document.



## FINANCIAL INFORMATION

### Cash Flows

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

	For the year ended December 31,			
	2018	2019	2020	2021
	<i>(RMB in thousands)</i>			
Operating (loss)/profit before changes in working capital	(17,068)	34,066	388,181	547,758
Changes in working capital	52,014	(12,704)	(152,146)	(132,868)
PRC enterprise income tax paid	(574)	(320)	(11,088)	(44,805)
<b>Net cash generated from operating activities</b>	16,381	4,847	203,084	369,459
Net cash generated from/(used in) investing activities	97,381	(322,815)	(191,094)	310,722
Net cash generated from/(used in) financing activities	98,791	(18,457)	260,992	(215,321)
<b>Net increase/(decrease) in cash and cash equivalents</b>	212,553	(336,425)	272,982	464,860
Cash and cash equivalents at beginning of year	187,827	400,380	63,955	335,835
Cash and cash equivalents of disposal group	–	–	(1,102)	–
<b>Cash and cash equivalents at end of year</b>	400,380	63,955	335,835	800,695

### *Net Cash Flows Generated From Operating Activities*

Our cash flow generated from operating activities was RMB369.5 million for the year ended December 31, 2021, primarily reflecting our cash generated from continuing operations of RMB414.9 million, partially offset by the PRC enterprise income tax paid of RMB44.8 million.

Our net cash generated from operating activities was RMB16.4 million in 2018, primarily reflecting our cash generated from continuing operations of RMB34.9 million, as adjusted for non-cash and non-operating items and cash used in discontinued operations of RMB18.0 million. Adjustments for non-cash and non-operating items primarily include depreciation of property and equipment of RMB21.9 million, amortization of intangible assets of RMB7.1 million and other income of RMB17.5 million. The amount was further adjusted for positive

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working capital changes, including (i) an increase in trade and other payables of RMB54.8 million; and (ii) a decrease in inventories of RMB19.4 million, partially offset by an increase in restricted cash of RMB29.7 million.

Our net cash used in operating activities was RMB4.8 million in 2019, primarily reflecting our cash generated from continuing operations of RMB21.4 million, as adjusted for non-cash and non-operating items and cash used in discontinued operations of RMB16.2 million. Adjustments for non-cash and non-operating items primarily include depreciation of property and equipment of RMB26.0 million and net finance costs of RMB12.9 million. The amount was further adjusted for negative working capital changes, including (i) an increase in trade receivables of RMB37.0 million; and (ii) an increase in prepayments and other receivables of RMB6.7 million, partially offset by an increase in trade and other payables of RMB27.8 million.

Our net cash generated from operating activities was RMB203.1 million in 2020, primarily reflecting cash generated from continuing operations of RMB224.9 million, as adjusted for non-cash and non-operating items and cash used in discontinued operations of RMB21.9 million. Adjustments for non-cash and non-operating items primarily include depreciation of property and equipment of RMB32.7 million and finance costs of RMB19.2 million. The amount was further adjusted for negative working capital changes, including an increase in trade receivables of RMB230.1 million, partially offset by (i) an increase in trade and other payables of RMB81.7 million; and (ii) a decrease in prepayments and other receivables of RMB15.9 million.

Our net cash generated from operating activities was RMB369.5 million for the year ended December 31, 2021, primarily reflecting cash generated from continuing operations of RMB370.1 million, as adjusted for non-cash and non-operating items and cash used in discontinued operations of RMB0.6 million. Adjustments for non-cash and non-operating items primarily included depreciation of property and equipment of RMB52.1 million and net impairment losses on financial assets of RMB23.1 million. The amount was further adjusted for negative working capital changes, including an increase in trade receivables of RMB363.7 million, partially offset by an increase in trade and other payables of RMB228.5 million.

### *Net Cash Flows Generated From/(Used in) Investing Activities*

Our net cash generated from investing activities was RMB97.4 million in 2018, which was primarily attributable to (i) payments for investments in the health city project and equipment and IT system development of RMB278.0 million; and (ii) payment for investments in FVOCI of RMB43.5 million, partially offset by receipts of fixed term deposits of RMB450.0 million and interest received of RMB19.8 million.

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Our net cash used in investing activities was RMB322.8 million in 2019, which was primarily attributable to (i) payment for investments in FVOCI of RMB118.0 million; (ii) payments for investments in the health city project and equipment and IT system development of RMB85.2 million; (iii) purchase of land use rights of RMB27.4 million; and (iv) purchases of property and equipment of RMB27.4 million.

Our net cash used in investing activities was RMB191.1 million in 2020, which was primarily attributable to (i) purchase of land use rights of RMB130.2 million; (ii) purchases of property and equipment of RMB45.3 million; (iii) advances to a third party (a shareholder of Guangzhou Yunjia) of RMB57.7 million, (iv) purchase of financial products of RMB150.0 million; and (v) prepayments for construction materials for RMB98.0 million, partially offset by return of repayments of RMB65.2 million relating to IT system development and purchase of equipment and reagents and repayments of RMB128.0 million due to the cancellation of the health city project.

Our net cash generated in investing activities was RMB310.7 million for the year ended December 31, 2021, primarily reflecting (i) repayments of RMB170.0 million due to the cancellation of the health city project; (ii) proceeds from disposal of FVOCI and FVTPL of RMB154.9 million; (iii) repayments for construction materials of RMB98.0 million; and (iv) repayment from the cash advance to a third party of RMB62.7 million, partially offset by purchases of property and equipment of RMB222.9 million.

### *Net Cash Flows Generated From/(Used in) Financing Activities*

Our net cash generated from financing activities was RMB98.8 million in 2018, which was primarily attributable to proceeds from bank and other borrowings we obtained of RMB147.8 million, partially offset by repayments of bank and other borrowings we made of RMB40.7 million.

Our net cash used in financing activities was RMB18.5 million in 2019, which was primarily due to (i) repayments of bank and other borrowings we made of RMB148.1 million; and (ii) interest payment we made of RMB12.3 million, partially offset by proceeds from bank and other borrowings we received of RMB147.2 million.

Our net cash generated from financing activities was RMB261.0 million in 2020, which was primarily due to proceeds from bank and other borrowings we received of RMB545.3 million, partially offset by (i) repayments of bank and other borrowings of RMB259.4 million; and (ii) interest payment we made of RMB18.1 million.

Our net cash use in financing activities was RMB215.3 million for the year ended December 31, 2021, primarily due to repayments of borrowings of RMB421.5 million, partially offset by proceeds of borrowings of RMB240.0 million.

## FINANCIAL INFORMATION

### INDEBTEDNESS

Our indebtedness primarily consisted of borrowings and lease liabilities. Our borrowings were primarily used for daily business operations during the Track Record Period. Our lease liabilities were primarily in relation to our leased office premises and equipment during the Track Record Period. The following tables set forth a breakdown of our indebtedness as of the dates indicated.

	As of December 31,				As of
	2018	2019	2020	2021	March 31, 2022
					(Unaudited)
	<i>(RMB in thousands)</i>				
<b>Non-current</b>					
Bank borrowings	–	–	–	69,900	129,700
Other borrowings	67,071	59,001	68,220	50,785	49,056
Less: current portion of non-current borrowings	(8,070)	(9,279)	(17,316)	(38,322)	(39,060)
Lease liabilities	13,352	6,138	8,550	44,162	49,303
<b>Subtotal</b>	<b>72,353</b>	<b>55,860</b>	<b>59,454</b>	<b>126,525</b>	<b>188,999</b>
<b>Current</b>					
Bank borrowings <sup>(1)</sup>	120,000	127,247	403,956	170,000	193,980
Current portion of non- current borrowings	8,070	9,279	17,316	38,322	39,060
Lease liabilities	11,354	15,957	16,500	27,171	28,783
<b>Subtotal</b>	<b>139,424</b>	<b>152,483</b>	<b>437,772</b>	<b>235,493</b>	<b>261,823</b>
<b>Total</b>	<b>211,777</b>	<b>208,343</b>	<b>497,226</b>	<b>362,018</b>	<b>450,822</b>

*Note:*

- (1) Among our current portion of bank borrowings, as of December 31, 2018, 2019, 2020 and 2021, our Group’s bank borrowings secured by properties and buildings of our Group amounted to RMB80,000,000, nil, nil and nil, respectively. As of December 31, 2018, 2019, 2020 and 2021, our Group’s bank borrowings were guaranteed by a subsidiary of our Group or Mr. Zhang Yong which amounted to RMB100,000,000, RMB127,246,704, RMB391,956,000 and RMB239,900,000, respectively.

As of December 31, 2021, except as disclosed in this section, we did not have any outstanding mortgages, charges, debentures, debt securities, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, any guarantees or other material contingent liabilities.

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Since December 31, 2021, the latest practicable date for the purpose of the indebtedness statement, and up to the date of this document, there had been no material adverse change to our indebtedness.

### **Bank Borrowings**

As of December 31, 2018, 2019, 2020 and 2021, interest-bearing bank borrowings of RMB80 million, nil, nil and nil were secured by our properties and buildings.

As of December 31, 2018, 2019, 2020 and 2021, interest-bearing bank borrowings of RMB100 million, RMB127.2 million, RMB392.0 million and RMB239.9 million, respectively, were guaranteed by subsidiaries of our Group and/or Mr. Zhang Yong. See “Relationship With Our Controlling Shareholders—Independence From Controlling Shareholders—Financial Independence” for details of the guarantee provided by Mr. Zhang Yong.

On June 11, 2018 and February 5, 2020, we entered into facility agreements with Bank of China and Industrial and Commercial Bank of China with principal amounts of RMB20 million and RMB10 million, respectively. The loans bear interests at floating rates of People Bank of China benchmark lending rate for +187 points per annum and LPR + 100 points per annum, respectively.

As of December 31, 2018, 2019, 2020 and 2021, the effective interest rate of the borrowings was 5.61%, 5.50%, 2.90% and 4.28% per annum, respectively.

### **Other Borrowings**

In December 2015, Gaoxin Daan Health Industry Investment Co., Ltd., one of our subsidiaries, entered into a fund arrangement with CDB Development Fund, pursuant to which the fund institution raised funds of RMB40.0 million and injected directly to Guangzhou Daan and 6.18% equity interests of Guangzhou Daan were held by the fund institution as collateral of which we are obligated to redeem at predetermined prices. The fund bears a fixed annual interest rate of 1.2%. The funds have fixed repayment terms of 15 years, and was guaranteed by a related party. See “History, Reorganization and Corporate Structure—Major Acquisitions, Disposals and Mergers.”

On September 8, 2020, we entered into an arrangement with a financial institution with a principal of RMB21 million, which was guaranteed by Mr. Zhang Yong. As of December 31, 2021, the outstanding balance was RMB11.8 million and the guarantee was released in February 2021.

Except for the guarantees provided by Da An Group, all the guarantees provided by the related parties had been released by March 2021 and there were no guarantees provided to the related parties during the Track Record Period. There were no pledges provided by/to the related parties during Track Record Period.

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### CAPITAL EXPENDITURE

Our capital expenditure during the Track Record Period consisted of additions of medical equipment, vehicles, furniture and office equipment, leasehold improvements, land use rights and right-of-use assets. The following table sets forth our capital expenditure for the periods indicated:

	For the year ended December 31,			
	2018	2019	2020	2021
	<i>(RMB in thousands)</i>			
Medical equipment	11,090	22,626	34,516	121,168
Vehicles, furniture and office equipment	932	2,039	2,047	7,340
Leasehold improvements	2,485	3,279	8,771	18,889
Land use rights	–	–	157,653	–
Right-of- use assets for leased properties, equipment and motor vehicles	18,475	1,764	7,806	57,041
Construction in progress	–	–	–	62,870
<b>Total</b>	<b>32,982</b>	<b>29,708</b>	<b>210,793</b>	<b>267,308</b>

To meet the needs of our growing business in China, we plan to build our new headquarters in Guangzhou. The project will be funded with cash inflow from our operations and bank borrowings.

In 2018, 2019, 2020 and 2021, the capital expenditure of medical equipment attributable to on-site diagnostic centers for our diagnostic testing services for medical institution alliances were RMB7.1 million, RMB12.2 million, RMB11.7 million and RMB36.8 million, respectively. As of December 31, 2018, 2019, 2020 and 2021, the net book amount of the medical equipment were RMB15.0 million, RMB21.3 million, RMB29.2 million and RMB54.5 million, accounting for 15.0%, 20.7%, 10.6% and 11.2% of the total property and equipment of our Group, respectively.

### OFF-BALANCE SHEET ARRANGEMENTS

We did not have during the Track Record Period, and we do not currently have, any off-balance sheet arrangements such as relationships with unconsolidated entities or financial partnerships, which are often referred to as structured finance or special purpose entities, established for the purpose of facilitating financing transactions that are not required to be reflected on our balance sheets.

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### RELATED PARTY TRANSACTIONS

#### Significant Related Party Transactions

During the Track Record Period, we had a limited number of transactions with our related parties, namely our joint venture, associate, Controlling Shareholder and other shareholders. All of these transactions were carried out in the normal course of our business and on terms as agreed between transacting parties.

#### *Provision of Services*

For the years ended December 31, 2018, 2019, 2020 and 2021, we generated revenue from providing physical examination service and consultation services in relation to research & development projects to Da An Gene Group in an aggregate amount of RMB0.9 million, RMB1.3 million, RMB1.5 million and RMB3.2 million, respectively.

#### *Purchase from Related Parties*

For the years ended December 31, 2018, 2019, 2020 and 2021, we purchased testing support service, reagents, consumables and equipment from Da An Gene Group in an aggregate amount of RMB57.8 million, RMB45.9 million, RMB79.0 million and RMB216.0 million, respectively. For details, see “Connected Transactions—Non-exempt Continuing Connected Transactions—Reagents, Consumables and Equipment Procurement Framework Agreement” and “—Non-exempt Continuing Connected Transactions—Laboratory Testing Service Framework Agreement.”

#### *Lease from Related Parties*

During the Track Record Period, we leased from Da An Gene certain properties to serve as office buildings. The additional right-of-use assets from such lease amounted to RMB10.1 million, nil, nil and RMB7.1 million, as of December 31, 2018, 2019, 2020 and 2021, respectively. Our interest expenses paid/payable on lease liabilities due to related parties amounted to RMB0.6 million, RMB0.4 million, RMB0.2 million and RMB0.3 million for the years ended December 31, 2018, 2019, 2020 and 2021, respectively.

#### *Commercial Property Management Service Fees due to Related Parties*

During the Track Record Period, we engaged Da An Gene Group to provide property management services to us. We paid services fees to them in the amounts of RMB2.5 million, RMB2.3 million, RMB2.6 million and RMB3.2 million for the years ended December 31, 2018, 2019, 2020 and 2021, respectively.

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### Related Party Balances

The table below sets forth the balances with related parties as of the dates indicated.

	As of December 31,			
	2018	2019	2020	2021
	<i>(RMB in thousands)</i>			
<b>Amounts due from related parties</b>				
Trade				
– Da An Gene Group	2,730	2,245	3,694	1,764
			Not	Not
– Sun Yat-sen University	29	58	applicable <sup>(1)</sup>	applicable <sup>(1)</sup>
– Mr. Zhang Yong	6	12	32	29
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
Non-Trade				
– Da An Gene Group	10,000	10,000	10,000	–
– Shiwei Kangjie	–	–	–	19,750
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
<b>Total</b>	<b><u>12,765</u></b>	<b><u>12,315</u></b>	<b><u>13,726</u></b>	<b><u>21,543</u></b>
<b>Amounts due to related parties</b>				
Trade				
– Da An Gene Group	(46,924)	(47,294)	(46,546)	(202,112)
			Not	Not
– Sun Yat-sen University	(3,608)	(3,600)	applicable <sup>(1)</sup>	applicable <sup>(1)</sup>
– Mr. Zhang Yong	–	(2)	–	–
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
	<b><u>(50,532)</u></b>	<b><u>(50,896)</u></b>	<b><u>(46,546)</u></b>	<b><u>(202,112)</u></b>
<b>Lease liabilities</b>	<u>(8,483)</u>	<u>(4,840)</u>	<u>(637)</u>	<u>(3,661)</u>
<b>Right of use assets</b>	<u>7,863</u>	<u>4,207</u>	<u>552</u>	<u>3,792</u>

*Note:*

- (1) On December 18, 2020, Sun Yat-sen University, the controlling shareholder of Da An Group, transferred all its 100% equity interests in Da An Group to Guangzhou International Holding Group Co., Ltd.. After the above-mentioned equity transfer was completed, Sun Yat-sen University is no longer a related party of our Group.



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Except for the guarantees provided by Da An Gene Group, all the guarantee provided by the related parties had been released by March 2021 and there were no guarantees provided to the related parties during the Track Record Period. In addition, there were no pledges provided by/to the related parties during the Track Record Period. We expect to settle all the non-trade balances with related parties prior to [REDACTED].

### KEY FINANCIAL RATIOS

The following table set forth our key financial ratios as of the dates or for the periods indicated:

	For the year ended/As of December 31,			
	2018	2019	2020	2021
Gross profit margin <sup>(1)</sup>	40.3%	44.1%	54.6%	53.0%
Current ratio <sup>(2)</sup>	1.9	1.0	1.8	2.0
Quick ratio <sup>(3)</sup>	1.8	1.0	1.7	2.0
Gearing ratio <sup>(4)</sup>	0.3	0.3	0.5	0.3

*Notes:*

- (1) Gross profit margin is calculated based on gross profit divided by revenue and multiplied by 100%.
- (2) Current ratio is calculated based on total current assets divided by total current liabilities.
- (3) Quick ratio is calculated based on total current assets less inventories divided by total current liabilities.
- (4) Gearing ratio is calculated by the total debt (which includes payables incurred not in the ordinary course of business), representing borrowings and lease liabilities divided by the total equity as at the end of each year and multiplied by 100%.

### Gross Profit Margin

For the years ended December 31, 2018, 2019, 2020 and 2021, our gross profit margin was 40.3%, 44.1%, 54.6% and 53.0%, respectively. For details, see “—Comparison of Results of Operations.”

### Current Ratio

Our current ratio decreased from 1.9 as of December 31, 2018 to 1.0 as of December 31, 2019, primarily due to a decrease in current assets as a result of a decrease in cash and cash equivalents due to (i) more costs and expenses incurred to fund our operations and expand our business, (ii) the acquisition of financial assets at FVOCI and (iii) purchase of land use right in 2019. Our current ratio increased from 1.0 as of December 31, 2019 to 1.8 as of December 31, 2020 primarily because of (i) an increase in trade receivables in line with our revenue increase in 2020; (ii) an increase in prepayments and other receivables representing the

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## FINANCIAL INFORMATION

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prepayment for the construction materials in preparation for the construction of our new headquarters in Guangzhou in December 2020; (iii) an increase in cash and cash equivalents given our increasing cash inflow from operations, partially offset by increases in trade and other payables, which was in line with our business expansion; and (iv) a financial product we invested in December 2020. Our current ratio increased from 1.8 as of December 31, 2020 to 2.0 as of December 31, 2021, primarily attributable to a decrease in current liabilities due to a decrease in borrowings and an increase in current assets as a result of increases in cash and cash equivalents and trade receivables.

### Quick Ratio

Our quick ratio decreased from 1.8 as of December 31, 2018 to 1.0 as of December 31, 2019, primarily due to a decrease in current assets due to a decrease in cash and cash equivalents as a result of the acquisition of financial assets at FVOCI and purchase of land use right. Our quick ratio increased from 1.0 as of December 31, 2019 to 1.7 as of December 31, 2020 primarily because of (i) an increase in trade receivables in line with our revenue increase in 2020; (ii) an increase in prepayments and other receivables representing the prepayment for the construction materials in preparation for the construction of our new headquarters in Guangzhou in December 2020; (iii) an increase in cash and cash equivalents given our increasing cash inflow from operations, partially offset by increases in trade and other payables, which was in line with our business expansion; and (iv) a financial product we invested in December 2020. Our quick ratio increased from 1.7 as of December 31, 2020 to 2.0 as of December 31, 2021, primarily due to a decrease in borrowings and an increase in current assets as a result of increases in cash and cash equivalents and trade receivables.

### Gearing Ratio

Our debt-to-equity ratio stayed relatively stable of 0.3 as of December 31, 2018 and 0.3 as of December 31, 2019, and increased to 0.5 as of December 31, 2020. The increase was primarily due to an increase in total debt as our bank borrowings significantly increased as of December 31, 2020. Our gearing ratio decreased from 0.5 as of December 31, 2020 to 0.3 as of December 31, 2021, primarily due to a decrease in borrowings.

## MARKET AND OTHER FINANCIAL RISKS

We are exposed to a variety of financial risks, including market risk, credit risk and liquidity risk, as set out below. We manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. For further details, including relevant sensitivity analysis, see note 3 in the Accountant’s Report set out in Appendix I to this document.

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## FINANCIAL INFORMATION

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### **Market Risk**

#### *Foreign Exchange Risk*

Our normal operating activities are principally conducted in RMB since most of our operating entities are based in the PRC. We have no significant foreign currency risks as all of the operations of our entities are denominated in RMB which is also the functional currency of the relevant entities.

#### *Cash Flow and Fair Value Interest Rate Risk*

Our interest-rate risk arises from borrowings. Borrowings issued at variable rates expose us to cash flow interest-rate risk. Borrowings issued at fixed rates expose us to fair value interest-rate risk. We currently have not used any interest rate swap arrangements but will consider hedging interest rate risk should the need arise.

Other than interest-bearing short-term deposits, we have no other significant interest-bearing assets. Our Directors do not anticipate that there is any significant impact to interest-bearing assets resulted from the changes in interest rates because the interest rates of short-term deposits are not expected to change significantly.

For details of market risk, see note 3.1.1 in the Accountant’s Report set out in Appendix I to this document.

### **Credit Risk**

We are exposed to credit risk in relation to our trade and other receivables, amounts due from related parties and cash deposits at banks. The carrying amount of each class of the above financial assets represents our maximum exposure to credit risk in relation to the corresponding class of financial assets.

For details and the analysis of credit quality at the end of each period during the Track Record Period, see note 3.1.2 in the Accountant’s Report set out in Appendix I to this document.

### **Liquidity Risk**

To manage the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance our operations and mitigate the effects of fluctuations in cash flows.

For details and the analysis of our financial liabilities during the Track Record Period, see note 3.1.3 in the Accountant’s Report set out in Appendix I to this document.

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## FINANCIAL INFORMATION

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### EDIVIDENDS

During the Track Record Period, our Company did not pay or declare any dividend. Our Board may declare dividends in the future after taking into account our results of operations, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Act. In addition, our Directors may from time to time pay such interim dividends as our Board considers to be justified by our profits and overall financial requirements, or special dividends of such amounts and on such dates as they think appropriate. No dividend shall be declared or payable except out of our profits, retained earnings or share premium, subject to a solvency test being satisfied.

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China. PRC laws require enterprises incorporated in the PRC to set aside at least 10% of their after-tax profits based on the relevant accounting standards set out by the PRC regulatory authorities at the end of each year to fund certain statutory reserves until the statutory reserves reach and remain at or above 50% of the relevant PRC entity’s registered capital. Distributions from our subsidiaries may also be restricted if they incur debt or losses, or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

### DISTRIBUTABLE RESERVES

As of December 31, 2021, our Company had no retained earnings and hence no distributable reserves.

[REDACTED]

The estimated total [REDACTED] (including [REDACTED] and other estimated expenses incurred in connection with the [REDACTED]) in relation to the [REDACTED] are approximately RMB[REDACTED] million, or HK\$[REDACTED] million, representing approximately [REDACTED]% of the [REDACTED] from the [REDACTED], based on a fixed [REDACTED] of HK\$[REDACTED]. Among the total [REDACTED], approximately RMB[REDACTED] million, or HK\$[REDACTED] million is expected to be borne by us and approximately RMB[REDACTED] million, or HK\$[REDACTED] million is expected to be borne by the [REDACTED]. Approximately RMB[REDACTED] million, or HK\$[REDACTED] million is expected to be charged to our consolidated statements of profit or loss and other comprehensive income, and approximately RMB[REDACTED] million, or HK\$[REDACTED] million is expected to be accounted for as a deduction from equity upon the [REDACTED]. [REDACTED] to be borne by us include (i) [REDACTED] expenses, including [REDACTED], of RMB[REDACTED] million or HK\$[REDACTED] million; (ii) fees and expenses of legal advisors and Reporting Accountants of RMB[REDACTED] million, or HK\$[REDACTED] million; and (iii) other fees and expenses of RMB[REDACTED] million, or HK\$[REDACTED] million. In 2020, we incurred [REDACTED] of RMB[REDACTED] million. For the year ended December 31, 2021, we incurred [REDACTED] of RMB[REDACTED] million. The [REDACTED] above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate. Our Directors do not expect such [REDACTED] to have a material adverse impact on our results of operations for the year ending December 31, 2022.

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### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules is to illustrate the effect of the [REDACTED] on our consolidated net tangible liabilities of our Group as of December 31, 2021 as if the [REDACTED] had taken place on that date. The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets of our Group had the [REDACTED] been completed as of December 31, 2021 or at any future dates.

[REDACTED]

## FINANCIAL INFORMATION

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[REDACTED]

### NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position since December 31, 2021 (being the date on which the latest audited consolidated financial information of our Group was prepared) and there has been no event since December 31, 2021 which would materially affect the information shown in our consolidated financial statements included in the Accountant’s Report in Appendix I to this document.

### DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that, as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules upon the [REDACTED] of the Shares on the Stock Exchange.