

## BUSINESS

### OVERVIEW

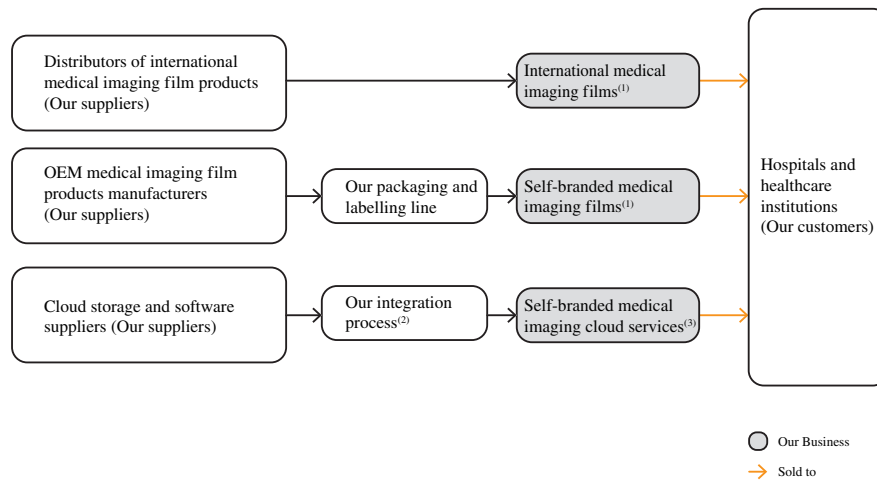
We are a medical imaging solutions provider, principally engaged in providing medical imaging film products and medical imaging cloud services in Shandong Province. In respect of our medical imaging film products business, our Group engages in the distribution of medical imaging film products from international brands and the sale of our self-branded medical imaging film products. According to CIC, for our distribution business, our Group was the biggest Tier-2 distributor of the Medical Imaging Products Manufacturer in Shandong Province in terms of sales volume in 2021. In respect of our medical imaging cloud services business, our Group was the third largest medical imaging cloud services supplier in Shandong Province with a market share of approximately 4.7%, in terms of sales revenue in 2021. Jinan Guanze, became accredited as a high and new technology enterprise which enabled it to enjoy a preferential tax rate of 15% commencing from 2021.

We have been the distributor of international medical imaging film product since 2016. Leveraging on our established customer base in the medical imaging market in Shandong Province and with a view to increasing our profitability, we have provided our self-branded medical imaging film products to our customers in Shandong Province since 2018. The sale of the medical imaging film products of international brands constituted approximately 91%, 81%, 72% and 68% of our revenue under the medical imaging film products business segment during the three years ended 31 December 2021 and the six months ended 30 June 2022 and the sale of medical imaging film products of our own brand constituted approximately 9%, 19%, 28% and 32% of our revenue under the medical imaging film products business segment during the same periods.

Having established a market position in the medical imaging film products market in Shandong Province and by riding on the increasing demand for medical informatisation and medical imaging cloud platform, we tapped into the medical imaging cloud services market by providing hospitals and healthcare institutions with medical imaging cloud services in 2017. With an aim to quickly penetrate into the market, we provide such services in the course of the sale of medical imaging films. Our Directors believe that such services help digitise the medical images and thereby enable medical practitioners and patients to access patients’ information anytime anywhere and increase the efficiency and accuracy of diagnosis and treatment. Our Directors also believe that such a sales model will increase customers stickiness.

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The following diagram illustrates our main business model.



*Notes:*

- (1) In the course of the sale of medical imaging films, depending on our customers’ needs, we will provide the corresponding self-service film output printer and/or medical image printer to them and our customers are not charged for the corresponding equipment. Occasionally, we also provide medical image data distribution system (including CDs) without charging our customers. The ownership of the equipment belongs to our Group. In the event of termination/discontinuation of the business relationship with our customers, the equipment provided to our customers during the course of the sale of medical imaging films are required to be returned. The reason for providing the corresponding self-service film output printer and medical image printer is to avoid incompatibility and distortion of images due to the use of different brands of medical imaging films, self-service film output printer and/or medical image printer.
- (2) To connect the software and the existing information technology systems of our customers, our integration process includes (i) installing the software to the existing information technology systems of our customers and formulating an application programme interface (API); and (ii) installing a hard drive called front-end processor on-site.
- (3) Medical practitioners and patients can retrieve the medical data from the digital medical imaging cloud storage platform provided by us.

During the Track Record Period, our customers included hospitals and healthcare institutions in Shandong Province. Over years of operations, we have accumulated a solid customer base and our customers covered 43 Grade III hospitals, 30 Grade II hospitals and 20 Grade I hospitals in Shandong Province, accounting for approximately 20.7% Grade III hospitals, 4.1% Grade II hospitals and 1.9% Grade I hospitals in Shandong Province, since the date of our inception until the Latest Practicable Date. According to CIC, Grade III hospitals in the PRC had the highest patient visits, which accounted for only 9.0% of total number of hospitals in the PRC but with approximately 57.5% of total visits to hospitals in the PRC in 2021, because the ability to provide an accurate diagnosis at lower grade hospitals is relatively low and hence patients are inclined to visit a higher grade hospital. Our Directors believe that our extensive hospital coverage and business network, in particular, our coverage on Grade III hospitals, significantly strengthen our position in the medical imaging market in Shandong Province. Going forward, we will continue to enhance cooperation with existing customers as well as establish our presence in the eastern part of Shandong Province that are not extensively covered by our products and services network.

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In terms of suppliers, for our distribution business, we procure medical imaging film products from distributors of the medical imaging film products for onward selling to our customers. For our self-branded products business, we procure medical imaging film products from OEM manufacturers, which will be further packaged and labelled or assembled by us. For our medical imaging cloud services, we procure software from our software suppliers, which are designed in accordance with our requirements and specifications.

During the Track Record Period, our Group generated all of the revenue and profits from customers in Shandong Province. For the three years ended 31 December 2021 and the six months ended 30 June 2022, we recorded a total revenue of approximately RMB140.8 million, RMB184.4 million, RMB211.1 million and RMB98.6 million, respectively, and a net profit of approximately RMB22.3 million, RMB29.0 million, RMB23.1 million and RMB15.4 million for the same periods, respectively. The following table sets forth details of our Group’s revenue derived from each business segment during the Track Record Period for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June				
	2019		2020		2021		2021		2022		
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	
<b>Sale of medical imaging film products</b>											
— Sale of medical imaging films	127,138	90.3	165,675	89.8	196,361	93.0	100,503	94.1	92,621	93.9	
— Others (Note)	1,771	1.2	7,120	3.9	565	0.3	62	0.1	149	0.2	
<b>Sub-total</b>	128,909	91.5	172,795	93.7	196,926	93.3	100,565	94.2	92,770	94.1	
<b>Provision of medical imaging cloud services</b>	11,916	8.5	11,640	6.3	14,150	6.7	6,163	5.8	5,851	5.9	
<b>Total</b>	140,825	100	184,435	100	211,076	100	106,728	100	98,621	100	

*Note:* Others mainly refer to the sale of self-service film output printer, medical image printer, medical image data distribution system, other medical devices and CDs and the maintenance fees and rental income of medical devices.

The following table sets forth details of our Group’s gross profit and gross profit margin derived from each business segment during the Track Record Period:

	For the year ended 31 December									For the six months ended 30 June					
	2019			2020			2021			2021			2022		
	Gross profit RMB'000	%	Gross profit margin %	Gross profit RMB'000	%	Gross profit margin %	Gross profit RMB'000	%	Gross profit margin %	Gross Profit RMB'000	%	Gross Profit margin %	Gross Profit RMB'000	%	Gross profit margin %
Sales of medical imaging film products	36,558	78.8	28.4	51,779	84.1	30.0	63,654	84.1	32.3	31,385	86.3	31.2	34,727	87.6	37.4
Medical imaging cloud services	9,857	21.2	82.7	9,796	15.9	84.2	12,045	15.9	85.1	5,003	13.7	81.2	4,899	12.4	83.7
<b>Total</b>	46,415	100	33.0	61,575	100	33.4	75,699	100	35.9	36,388	100	34.1	39,626	100	40.2

## BUSINESS

### OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed to our success, differentiated us from our competitors, and will continue to be the key drivers of our business growth:

#### **The only provider in Shandong Province which provides medical imaging film products together with medical imaging cloud services**

According to CIC, we are the only provider in Shandong Province which provides medical imaging film products together with medical imaging cloud services. In respect of our medical imaging film products business, our Group engages in the distribution of medical imaging film products from international brands and the sale of our self-branded medical imaging film products. According to CIC, for our distribution business, our Group was the biggest Tier-2 distributor of the Medical Imaging Products Manufacturer in Shandong Province in terms of sales volume in 2021. In respect of our medical imaging cloud services business, our Group was the third largest medical imaging cloud services supplier in Shandong Province with a market share of approximately 4.7%, in terms of sales revenue in 2021.

As a one-stop medical imaging solutions provider, if our customers procure medical imaging films from us and depending on our customers’ needs, we will provide the medical imaging cloud services along with the medical imaging films so that the medical imaging printers can be connected to our digital medical imaging cloud storage platform to retrieve medical data. Our Directors consider that we differentiate ourselves from other medical imaging film products providers in Shandong Province by specialising in the integration of both hardware and software for offering a one-stop medical imaging products and services to our customers, which in turn help to maintain customers stickiness and loyalty to our products and services.

#### **An early mover to the medical imaging cloud services market in Shandong Province**

We consider ourselves as an early mover to tap into the medical imaging cloud services market in Shandong Province. Driven by the needs of larger storage capacity due to the improvement in imaging devices and significant increase in image volume, cloud platform becomes a more cost-efficient way than traditional local storage. Coupled with the needs of information and data sharing within regions and between hospitals and healthcare institutions, the market size of medical imaging cloud services industry in the PRC increased from approximately RMB0.7 billion in 2016 to approximately RMB3.5 billion in 2021 at a CAGR of approximately 36.6% and is expected to further grow from approximately RMB3.5 billion in 2021 to approximately RMB18.9 billion in 2030 at a CAGR of approximately 20.6%. The market size of medical imaging cloud services industry in Shandong Province increased rapidly from less than approximately RMB0.06 billion in 2016 to approximately RMB0.30 billion in 2021 at a CAGR of approximately 40.5%, and it is expected to keep continuous growth and reach approximately RMB1.63 billion in 2030 at a CAGR of approximately 20.5%.

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In 2017, we started to provide medical imaging cloud services in the course of the sale of medical imaging films to our customers in Shandong Province and therefore have established a market presence in the medical cloud services industry in Shandong Province. As at 31 December 2019, 2020, 2021 and 30 June 2022 and the Latest Practicable Date, the number of customers subscribing to our medical imaging cloud services was 42, 51, 53, 53 and 55, respectively. Our customer base increased year by year and our experience in the provision of medical imaging cloud services has become more mature over the years of operation. During the Track Record Period, our Group’s revenue derived from the provision of medical imaging cloud services business segment were approximately RMB11.9 million, RMB11.6 million, RMB14.2 million and RMB5.9 million, respectively, representing approximately 8.5%, 6.3%, 6.7% and 5.9%, of our Group’s total revenue for the relevant period, respectively. We also plan to broaden our source of income by expanding our medical imaging cloud services portfolio to further capture the rising opportunities of the medical imaging cloud services market in Shandong Province. Leveraging on the advantage of being an early mover to the market, proven track record, as well as market recognition, we believe that we are well positioned to further increase our market share in the medical imaging cloud services industry in Shandong Province efficiently, strengthen our competitive advantages effectively and generate attractive investment returns for our Shareholders.

### **Well-positioned to capture the opportunities in Shandong Province**

During the Track Record Period, all of our customers are located in Shandong Province, which is a highly-populated province in the PRC with relatively high medical demands and extensive hospital coverage. According to CIC, in 2021, Shandong Province ranked the second, the second and the fifth in terms of resident population, healthcare institutions coverage, and number of outpatient visits, respectively, amongst all provinces, municipalities and autonomous regions in the PRC and the total number of hospitals in Shandong Province increased from over 2,000 in 2016 to over 2,600 in 2021 and is expected to increase to over 2,900 in 2025.

Our business is deeply rooted in Shandong Province, which allows us to capture the opportunities there. Over years of operations, we have accumulated a solid customer base and we have successfully established an extensive hospital coverage that covered 43 Grade III hospitals, 30 Grade II hospitals and 20 Grade I hospitals in Shandong Province, accounting for approximately 20.7% Grade III hospitals, 4.1% Grade II hospitals and 1.9% Grade I hospitals in Shandong Province, as at the Latest Practicable Date. According to CIC, Grade III hospital in the PRC had the highest patient visits, which accounted for only 9.0% of total number of hospitals in the PRC but with approximately 57.5% of total visits to hospitals in the PRC in 2021, because the ability to provide an accurate diagnosis at lower grade hospitals is relatively low and hence patients are inclined to visit a higher grade hospital. We believe our extensive coverage is a sign showing that we have a reputation among the hospitals and healthcare institutions in Shandong Province. Our Directors also believe that the newly established hospitals and healthcare institutions may tend to choose us as their medical imaging film products and medical imaging cloud services providers due to our familiarity with the operation and procurement process of the hospitals and healthcare institutions in Shandong Province.

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### **Stable and established business relationship with our customers and international medical imaging film products suppliers**

We maintain stable and established business relationship with our customers and more than 40% of our customers have maintained business relationship with us since our inception. To maintain business relationship with our customers, our sales and marketing and engineering teams are receptive to our customers’ feedback, changing preferences and operational needs and are able to provide comprehensive after-sales support in a timely manner. This, in turn, facilitates a better working relationship with procurement personnel and medical practitioners from different departments of the hospitals and healthcare institutions. Our timely delivery of products and services also helps maintain our business relationship with existing customers in Shandong Province. Moreover, our sales model is to provide corresponding self-service film output printer and medical image printer during the sale of medical imaging films to avoid the possibility of distortion of images and incompatibilities when different brands of equipment and films are used. According to CIC, this is in line with the market practise. We believe that there will be a continuous demand for the medical imaging films as our customers will be more inclined to purchase medical imaging films from us after installing the corresponding self-service film output printer and medical image printer at their hospitals and healthcare institutions. Our Directors believe that our stable relationship with our customers also serves as one of the essential factors in securing our existing suppliers and distributorship and has brought us a competitive advantage in obtaining and/or negotiating variable distribution rights with medical imaging film products manufacturers or its distributors.

We believe that our solid business relationship with our customers allows us to stand out in the competition of the medical imaging market in Shandong Province as we have already gained an in-depth knowledge and understanding of the procurement procedures and requirements of the hospitals and healthcare institutions as well as their internal rules and regulations.

Furthermore, we believe that a stable and good relationship with the distributors of international medical imaging film products is one of the factors to achieve our success. One of our medical imaging film products suppliers is the Tier-1 distributor of the Medical Imaging Products Manufacturer, which is Honghe Group. We have established our business relationship with Honghe Group since 2017 and entered into a ten-year framework procurement agreement with Honghe Group in February 2021. Founded in 2007, the principal business of Medical Imaging Products Manufacturer is manufacturing of medical imaging film products. According to CIC, Medical Imaging Products Manufacturer was the market leader in the medical image film products market in the PRC and Shandong Province with a market share of approximately 28.0% and 55.0%, respectively, by revenue in 2021. As at 30 June 2022, approximately 38.6% of our customers procured medical imaging film products of the Medical Imaging Products Manufacturer from us.

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### **Capable to supply self-branded medical imaging film products to vertically integrate our medical imaging film products supply chain**

We are one of the medical imaging film products distributors in the PRC which also possesses product development capabilities. According to the national policy of “Made in China 2025” and “Outline for Healthy China 2030”, substitution of imported medical devices by domestic products has become an inevitable trend. The domestic market of medical imaging film products is expected to benefit from this policy, and it is expected that hospitals and healthcare institutions will increase their purchases from domestic companies. In light of this policy, domestic medical imaging film products suppliers will play a more important role in supporting China’s healthcare system in the future.

In order to capitalise our experience accumulated over years of experience in the medical imaging film products market, we commenced our self-branded products business in 2018. We procure medical imaging films products from OEM manufacturers in the PRC, which will be further packaged and labelled or assembled by us. As at the Latest Practicable Date, our product portfolio included self-branded medical dry laser film, thermal film, medical printing film, self-service film output printer, medical imaging printer and medical image data distribution system. Our self-branded products broaden our products portfolio and our revenue stream. During the Track Record Period, we saw an increasing trend in the sale of medical imaging film products of our own brand, which constitute approximately 9%, 19%, 28% and 32% of our total revenue under the medical imaging film products business segment, respectively.

We believe that as we gradually increase the proportion of our self-branded products business, there will continue to be a positive impact on our financial performance.

### **Experienced and committed professional management and sales team with proven track record**

Our executive Directors, Mr. Meng and Mr. Guo, have extensive experience in the medical imaging industry in the PRC. They have been engaged in the sales and distribution of medical imaging film products in the PRC for over 21 years. For details of the biographies of Mr. Meng and Mr. Guo, please refer to the section headed “Directors and senior management” in this document. Through Mr. Meng and Mr. Guo’s involvement and leadership, we have built a team of experienced professionals in operations, general management and financial management through years of operation. The key members of our management team have an average of ten years’ of experience in the medical imaging or finance industry. With keen business insight developed from years of experience in the medical imaging industry, our management team can identify the market trend, adapt to market needs and grasp existing and potential business opportunities and in turn our Group may maintain long-standing relationship with our customers and ensure all of our operations conform to national, local and industry standards.

We have an experienced sales and marketing team that has built up significant local market know-how and expertise, including an understanding of local customers’ preferences. We believe that our experienced senior management team has played a key role in leading the operations and development strategies, and in providing us with industry and operational knowledge, which have been and will continue to be the key to our success in our future operations and profitability.

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### OUR BUSINESS STRATEGIES

We aim to continue the growth and expansion of our operations through the following strategic initiatives:

#### **Expand our customer base and further consolidate our market presence in Shandong Province by expanding to the eastern part of Shandong Province**

According to CIC, the main driving forces of the medical imaging film products market are (i) the increasing demand for self-service film output printer, which can reduce distribution errors and shorten waiting time; and (ii) favourable national policies, which encourage the use of local medical imaging film products to substitute imported medical imaging film products. The domestic medical image printing suppliers is expected to benefit from this policy, and it is predicted that there will be a shift to purchase medical imaging film products from multinational companies to domestic companies in the PRC. On the other hand, according to CIC, the market size of medical imaging cloud services industry in Shandong Province is expected to grow further from approximately RMB0.30 billion in 2021 to RMB1.63 billion in 2030 at a CAGR of 20.5%, attributable to (i) the demand for medical imaging cloud services which provides the functions of storage, retrieval, management, distribution and presentation of digital medical images from multiple medical modalities and diagnostic data without the need to manually file, retrieve or transport the physical medical images and data; (ii) the needs of storage capacity as a result of the improvement in medical imaging devices and significant increase in medical image volume; and (iii) the demand of information and data sharing within regions and between hospitals and healthcare institutions. For further details of our growth drivers, please refer to the section headed “Industry Overview — Market Drivers and Future Trends of the China’s Medical Imaging Film Products Market” and “Market Drivers and Future Trends of China’s Medical Imaging Cloud Services Market” of this document.

Riding on the growth momentum of the medical imaging film products market and the medical imaging cloud services market, we plan to further consolidate our market presence in these two markets by expanding our presence to the eastern part of Shandong Province.



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During the Track Record Period, most of our customers were situated in the western part of Shandong Province, including, Jinan, Jining, Linyi, Liaocheng, Zibo, Heze, Zaozhuang and Dezhou. For further details of our geographical allocation of our customers, please refer to the map of Shandong Province below:



 Our Customers

Leveraging on our experience with hospitals in the western part of Shandong Province and to capture the rising opportunities in the medical imaging market in Shandong Province, we plan to increase our coverage of hospitals and healthcare institutions by expanding our sales network to the eastern part of Shandong Province which is not extensively covered by us.

The details of our strategies to tap into the eastern part of Shandong Province are set out below:

- (i) *Setting up sales office and warehouse:* we have set up a sales office and a warehouse in Jinan. We intend to set up a sales office with gross floor area of 800 sq.m. and a warehouse with gross floor area of 300 sq.m. in Qingdao at an expected total rental costs of approximately HK\$79,000 per month based on the quotation obtained, which will be dedicated to serve the customers in the eastern part of Shandong Province, as the commuting time from the western part of Shandong Province to the eastern part of the Shandong Province is long, for example, the commuting time from Jinan to Qingdao generally requires approximately four to five hours by vehicle. In addition, our Directors also noted that occasionally, we are required to deliver our products and services on the same day when customers place orders. Therefore, setting up a sales office and warehouse in Qingdao allows us to provide timely consultation, delivery, installation and after-sales services to our potential customers in the eastern part of Shandong Province and we may maintain close contact with our customers in the eastern part of Shandong Province. The cost of renting and set-up of a sales office and a warehouse is estimated to be approximately HK\$[REDACTED] million which will be financed by the [REDACTED] from the [REDACTED];

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- (ii) *Purchasing medical imaging printers from different brands or OEM manufacturers and front-end processors for provision of medical imaging cloud services:* A typical medical image printing process requires self-service film output printers and film of the same brand to produce accurate images. Our sales model is to provide the corresponding self-service film output printers during the sale of medical imaging films. Occasionally, we also provide medical image data distribution system. Our Directors believe that under such a sales model, there will be a continuous demand for our medical imaging films. This, in turn, provides us with a stable and recurring income stream as our customers will be more inclined to purchase medical imaging films from us after installing the corresponding self-service film output printers at their hospitals and healthcare institutions. In order to replicate such a sales model, we intend to procure self-service film output printers and medical image data distribution system from international brands or engage OEM manufacturers to produce medical imaging printers. We also plan to purchase front-end processors, which is a hard drive for connecting our software to the existing information system of our customers, in order to provide medical imaging cloud services to our new customers during the sale of medical imaging films. The number of self-service film output printers, medical image data distribution systems, front-end processors to be procured by us is 360, 45 and 45, respectively. As per the applicable accounting policies adopted by us, depreciation of our machinery and equipment is calculated using the straight line method to allocate the residual values over the estimated useful lives of the equipment and machineries. The expected average useful life of the self-service film output printers and medical image data distribution system to derive future economic benefits is five years. The actual useful lives of these equipment and machineries may be different from the estimates due to reasons such as periodic maintenance. The cost of purchasing the necessary printers and hardware is estimated to be approximately HK\$[REDACTED] million which will be financed by the [REDACTED] from the [REDACTED] and the working capital generated from operation/internal resources; and
- (iii) *Recruiting additional staff:* with the establishment of our new sales office and warehouse, we plan to attract and retain a total of nine sales and marketing personnel and 11 engineering personnel in order to support and sustain our expansion of sales network in the eastern part of Shandong Province. Our existing sales and marketing personnel and engineering personnel are devoted to our existing customers, and hence we will need to hire additional sales and marketing personnel as we intend to expand our customer base by covering more hospitals and healthcare institutions in the eastern part of Shandong Province. In view of our limited workforce, we consider it necessary to expand our sales team by recruiting one sales manager and eight business representatives and our engineering team by recruiting one installation and after-sales manager, five installation engineer and five after-sales engineer. Each of the sales manager, business representatives, installation and after-sales manager, installation engineer and after-sales engineer is expected to have monthly salary of approximately HK\$25,000, HK\$10,000, HK\$20,000, HK\$10,000 and HK\$10,000, respectively, which are in line with market rates. The cost of recruiting additional staff is estimated to be approximately HK\$[REDACTED] million which will be financed by the [REDACTED] from the [REDACTED].

In view of the above, we intend to deploy approximately [REDACTED] of the [REDACTED] to expand to East Shandong. For further details of the use of [REDACTED] from the [REDACTED], please refer to the section headed “Future plans and use of [REDACTED]” in this document.

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### **Enhance the delivery of our medical imaging cloud services through strategic acquisition, obtaining the medical device registration certificate and upgrade of our hardware and software**

#### ***(I) Strategic Acquisition***

According to CIC, an increasing number of hospitals and healthcare institutions in the PRC are deploying medical imaging cloud services to facilitate reading the medical scans on screen without the need to print out medical images with an aim to improve diagnostic efficiency, which resulted in the continuous growth of the market size from RMB0.7 billion in 2016 to approximately RMB3.5 billion in 2021 at a CAGR of 36.6% and it is expected to further grow from approximately RMB3.5 billion in 2021 to approximately RMB18.9 billion in 2030 at a CAGR of 20.6%. In addition, the medical imaging cloud services market is scattered in China and the medical imaging informatisation is in its infancy in China and hence there is still a lot of unmatched market demand.

In light of the expected growth in the medical imaging cloud services market and to capitalise the unmatched market demand, we plan to enhance the delivery of our medical imaging cloud services as we offered medical imaging cloud services with basic and general functions only during the Track Record Period. Our capability in offering cloud services to customers premises upon our advanced technology. As such, a higher technological level of expertise in software engineering discipline is required. Since technology level and the set-up of a mature software engineering team may take years to develop, our Directors consider that mergers and acquisitions of companies with solid skills and knowledge will provide us with immediate access to the software engineering and technological expertise. Leveraging on the skills and knowledge of the software engineering staff and the technology of the target companies, our Directors believe that our Company will be able to enhance the effectiveness of, and add new and/or complex functions and features to our existing cloud services and develop new type of cloud services, which in turn enhances our competitiveness. Also, acquisition will not only increase our capacity as we acquire the facilities of the target companies, but will also allow us to diversify our customers bases as we will have immediate access to the existing customer base of the target companies upon acquisition. As we consider our medical imaging cloud services as one of our major business segments and we aim to expand our provision of cloud services in the long term, we believe our in-house software engineering term will allow us to timely react to the ever-evolving market trends and business requirements, to develop innovative, customised cloud services to our customers' satisfaction when compared to engaging a third-party software supplier and to stay ahead in the ever-changing market. Accordingly, we intend to acquire a majority, if not all shareholding interest of:

- (i) a company which possesses the technical know-how of developing PACS system and digital medical imaging cloud storage platform; and
- (ii) a start-up company in AI healthcare industry, which possesses the technical know-how of building an AI system relating to providing a medical diagnosis recommendation by analysing the historical medical images.

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### *PACS system, digital medical imaging cloud storage platform*

During the Track Record Period, in the course of providing our medical imaging cloud services, we engaged third-party software suppliers to (i) develop software including PACS system and digital medical imaging cloud storage platform in accordance with our instructions and specifications; and (ii) upgrade the system and platform at least four times a year, which is mainly to add new or enhance existing functions to our PACS system and reduce bugs. To build a reliable and solid base of our information technology services and eliminate recurring procurement costs, we plan to acquire a PACS system developer and a digital medical imaging cloud storage platform developer. Generally, a PACS system software developer also possesses the expertise of developing an interface of the digital medical imaging cloud storage platform. Therefore, we plan to acquire a PACS system software developer with such expertise.

With the promotion of medical informatisation in hospitals, more and more hospitals require new, customised and complex functions and features to be added to their PACS systems. During the Track Record Period, we provided PACS system with basic and general functions. To cope with such an increasing requirement of adding more and/ or complex functions and features for example, the automatic report generation function and integration of the PACS systems from different departments within a hospital, we have to constantly upgrade our PACS system. However, due to insufficient software engineering staff, we are unable to do so without engaging third-party software suppliers to develop or upgrade the PACS systems of our customers. Based on the fee quotation we obtained, the average costs in engaging third-party software suppliers to develop or upgrade the PACS system, including, amongst others, installation of new, customised and complex functions and features, for each customer or project, amount to RMB1.45 million.

We estimate that there will be approximately 80% in cost savings if we develop and upgrade a PACS system on our own after the acquisition of a PACS system developer, compared to the costs of engaging third-party software suppliers. To the best knowledge of our Directors, the estimated average costs, in particular, labour costs, in operating our own software engineering team to develop and upgrade the PACS system, including, amongst others, installation of new, customised and complex functions and features, for each customer or project, is approximately RMB290,000 under the assumption that our software engineering staff will spend an average of 221 days in total on each customer or project.

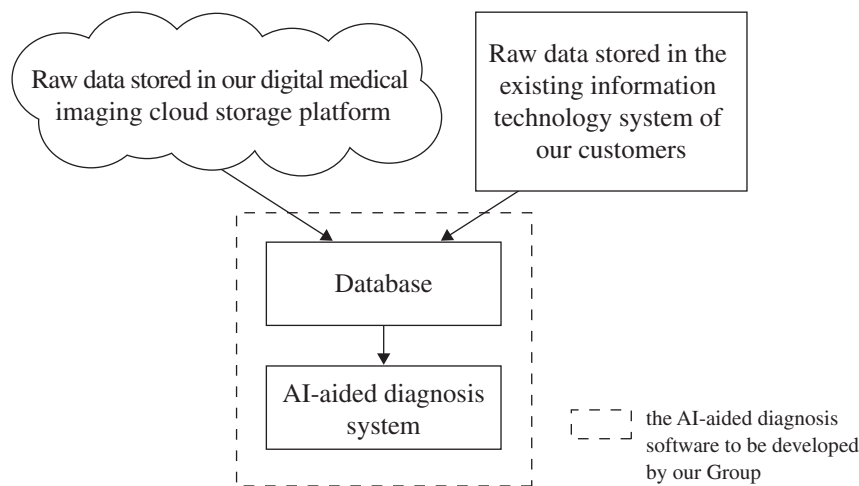
### *AI-aided diagnosis software*

It is our plan to ride on the technical know-how, expertise and experience of the start-up company, which is currently developing or has developed the AI-aided diagnosis software. The AI-aided diagnosis software is a software which supports medical practitioners during diagnosis process by enabling medical images detection and recognition and providing intelligent diagnosis recommendations. We believe the AI-aided diagnosis software has great potential due to an expected increase in the number of medical visits in Shandong Province as well as the expectation of the improvement in diagnosis efficiency in the future.

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The raw data, including digital medical images and diagnosis report of the patients, which is stored in our digital medical imaging cloud storage platform and/or the existing information technology system of our hospitals and healthcare institutions customers, serves as a database to build up the AI-aided diagnosis software. The software we intended to develop will make use of the raw data to analyse and compare the historical medical images in the database with the medical images to be diagnosed and make reference to the diagnosis decisions made with the similar medical images in the past to arrive at an optimal diagnosis recommendation and/or suggest action to be taken. Our Directors believe that the development of such a software, which will be built upon our medical imaging cloud services, will complement our existing range of medical cloud services, widen our cloud services offerings and increase our revenue in long run. This, in turn, will enhance our role as a one-stop medical imaging solutions provider.

Below is an illustrative diagram of our AI-diagnosis aided software.



In line with the AI software industry practise, generally, it is unlikely for an AI medical software company to sell its AI-diagnosis aided software including its intellectual property, core technology and underlying structure, to other companies. As such, to the best knowledge of our Directors, our Company can only engage a third-party software supplier to provide AI-aided diagnosis services for each of our customers (i.e. hospitals) and the costs of engaging a third-party software supplier to provide such services for each of our customers (i.e. hospitals) is approximately RMB2 million based on the fee quotation we obtained.

As we aim to develop the medical imaging cloud services in long term and to maintain our competitiveness in the medical imaging cloud services market, our Directors believe acquisition of a start-up company is more beneficial to us in the long run, because we can timely react to our customers' requirements on the software and develop innovative, and customised cloud services to our customers' satisfaction when compared to engaging a third-party software supplier.

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As advised by our PRC Legal Advisers, in case the relevant competent authority is of the view that the AI-diagnosis services described above falls within the classification under “Special Management Measures (Negative list) for the Access of Foreign Investment”, foreign investors may be restricted from holding more than 50% equity interest in companies providing such services and that it may not be viable for our Company to hold our PRC company in carrying out such intended business directly through equity ownership. As such, as advised by our PRC Legal Advisers, we may have to gain effective control over, and receive all the economic benefits generated by the intended business to be operated by our PRC company through contractual arrangements. For further details on the risks relating to our possible contractual arrangements, please refer to the paragraph headed “Risk Factors — We may be subjected to certain risks relating to contractual arrangements during the course of implementation of our business strategies” in this document.

Announcement(s) and/or circular containing, among other things, details of the acquisition and contractual arrangements will be published in accordance with the Listing Rules should the Company proceed with the acquisition after [REDACTED]. We intend to acquire a majority, if not all shareholding interest of the target(s) and if we are not able to acquire the majority shareholding interest of the target through contractual arrangements in the future, we may acquire a minority shareholding interest of the suitable target or look for other ways to engage such business.

We plan to take the following steps in pursuing opportunities for selective acquisitions:

- (i) our Board will evaluate and identify potential acquisition targets based on the following selection criteria, including but not limited to: (i) their products and/or research and development portfolio; (ii) years of experiences, qualifications and competencies of their engineer personnel; (iii) their existing customer base; (iv) their track record and operating history; (v) their revenue, cash flow and earnings generation capabilities, as well as balance sheet strength and other financial consideration; and (vi) the required permits and licences under the relevant laws and regulations in the PRC. In choosing our acquisition targets, we may consider a target that: (i) has reached a revenue of more than RMB3 million; (ii) has a geographical coverage in China that is complementary to our business and strategies; (iii) has an operational history and track record of more than three years; and (iv) is valued at RMB20 million to RMB40 million, depending on market conditions, industry development and valuation benchmarks.
- (ii) according to CIC, there are approximately 17 PACS system software developers and 8 start-up companies in AI healthcare industry that may potentially meet our requirements for acquisition in the PRC. The potential targets are expected to be small-sized companies with a strong software engineering team.
- (iii) our management will perform feasibility study, preliminary due diligence on potential targets and present an internal evaluation proposal to our Board for consideration and approval. Our Board will assess whether the business activities of the potential targets can be integrated into our Group to create synergy and economies of scale to reduce operational costs thus increasing overall sales and profitability of our Group.

## BUSINESS

We intend to [REDACTED] not more than approximately HK\$[REDACTED] million, by the [REDACTED] from the [REDACTED], depending on the amount of purchase price and commercial terms of the potential acquisition, to settle part of the consideration of any strategic acquisitions, with the remaining part being settled by internal resources and/or external financing.

As at the Latest Practicable Date, we had neither identified any suitable target, nor formulated any specific acquisition plans, nor entered into any definitive agreements for any potential target.

### **(2) *Obtaining the medical device registration certificate***

To enable the AI-aided diagnosis system to be installed in the hospitals and healthcare institutions, a Class III medical device registration certificate has to be obtained as required under the Regulations on the Supervision and Administration of Medical Devices (《醫療器械監督管理條例》). The costs expected to be incurred include:

- (i) costs to engage certification consultants: in order to assist and facilitate our application, we would have to engage certification consultants, who are familiar with the application procedures, and possess the required expertise, experience and knowledge of the relevant rules and regulations. The services they rendered include preparing for necessary documentation, arranging for clinical trials, communication with relevant authorities and overall project coordination and management;
- (ii) costs of arranging clinical trials: clinical trials and administrative expenses would be incurred during the application process, including expenses for various clinical trials during the application process and application fee for registration; and
- (iii) other administrative expenses.

Our Directors expect that, the timeframe required for the registration process of the Class III medical device registration certificate is at least twenty-nine months in general.

To finance the application for registration certificates costs, we expect that approximately HK\$[REDACTED] million of the [REDACTED] of the [REDACTED], will be utilised for such purpose.

**BUSINESS**

**(3) Upgrading our hardware and software**

Our Directors believe that possession of up-to-date market intelligence within the industry is one of the key factors leading to the success of a medical imaging cloud services provider. To this end, we will continue to strengthen our IT services capabilities and are committed in developing and expanding our medical imaging cloud services, in order to maintain our competitiveness and increase our market share in the healthcare industry. In particular, we intend to further expand and develop our medical imaging cloud services which include, among others, cloud storage, data transmission and R&D. Accordingly, we plan to (i) invest in our technology infrastructure; (ii) expand our cloud storage capacity; and (iii) acquire additional software. The following table sets forth the breakdown of hardware and software to be procured by us.

<b>Particulars of cloud storage/software/hardware</b>	<b>Estimated costs (HK\$)</b>
<b>Cloud storage</b>	
Purpose: to expand the cloud storage capacity	[REDACTED]
<b>Distributed Storage System</b>	
Purpose: to facilitate and support the development of cloud services	[REDACTED]
<b>Hyper-Converged Infrastructure</b> (a software-defined, unified system that combines all the elements of a traditional data centre: storage, compute, networking and management)	
Purpose: to facilitate and support the development of cloud services	[REDACTED]
<b>Computer, laptops and monitors</b>	
Purpose: to facilitate and support the development of cloud services	[REDACTED]
<b>Development and other ancillary software</b>	
Purpose: to facilitate and support the development of cloud services	<u>[REDACTED]</u>
<b>Total</b>	<u><u>[REDACTED]</u></u>

To finance the upgrade of hardware and software costs, we expect that approximately HK\$[REDACTED] million of the [REDACTED] of the [REDACTED], will be utilised for such purpose.



## BUSINESS

### Horizontally expand our value chain by broadening our product offerings

Leveraging on our established “冠澤慧醫” (Guanze Huiyi) brand, our historical experience in engaging OEM manufacturers, solid track record for product validation and commercialisation and experienced sales team, we intend to expand our product offerings through offering the following self-branded products by engaging OEM manufacturers because there is an unsaturated demand for the products.

#### Product Pipeline

#### Description

Mobile X-ray system  
(移動式攝影X射線機)

Different from the conventional X-ray system, the mobile X-ray system is moveable and hence improves patient care. It eliminates the need and inconvenience of transporting patients to the radiology department to conduct medical scan and enables medical scan to be done at a patient’s bedside. Imaging patients at their bedside can help eliminate the risk of spread of contagions during patient transportation.

High pressure injector (高壓注射器)

The function of a high pressure injector is to inject a sufficient amount of contrast agent (造影劑) into the examination site of the body in order to clearly reflect the structures or fluids within the body in the medical images. The applicable type of diagnostic imaging is CT, MR and DSA.

According to CIC, an unsaturated demand for the mobile X-ray system is supported by the following reasons. First, the rising awareness of health and wellness and ageing population contribute to a higher risk of sport injuries, which may require X-ray examinations, and it is expected that there will be an increase of the number of arthroscopic surgeries operated from approximately 1.0 million in 2021 to approximately 2.0 million in 2025 at a CAGR of approximately 19.6%. Second, in preparation for future public health emergencies, such as in the case of infectious disease, hospital and healthcare institutions tend to equip themselves with mobile X-ray systems. The sales volume of mobile X-ray system in the PRC increased from 582 units in 2016 to 1,714 units in 2021 at a CAGR of 24.1% due to the increase in demand for X-ray scans, which is resulted from the COVID-19 outbreak. The sales volume of mobile X-ray system in the PRC is expected to increase from 2,233 units in 2025 to 2,907 units in 2030 at a CAGR of 5.4%.

## BUSINESS

Further, the unsaturated demand for high pressure injector is also supported by the following reasons, according to CIC. First, the demand for a clear and high quality of medical images gives rise to the procurement of high pressure injector. Second, the prevalence of cardiovascular diseases in the PRC gives rise to a demand for high pressure injector as it is one of the essential equipment in cardiovascular imaging. According to CIC, the volume of CT, MR and DSA scans in the PRC in aggregate increased from 272 million in 2016 to 405 million in 2021 at a CAGR of 8.3% and is expected to increase from 546 million in 2025 to 761 million in 2030 at a CAGR of 6.9%, thus it is foreseen that the market size of high pressure injector in the PRC will also experience a stable growth.

During the Track Record Period, we engaged OEM manufacturers to manufacture thermal film, medical printing film, medical dry laser film, self-service film output printer, medical image data distribution system and medical image printer or the equipment component. As confirmed by CIC, the sale of OEM mobile X-ray system and high pressure injector and the sale of our existing OEM products share the same business flow as those of medical imaging products, which is to (i) engage OEM manufacturers to manufacture mobile X-ray system and high pressure injector according to our instructions and requirements, (ii) label and package the products; and (iii) arrange delivery and installation of the products. In the premise of the similarity between the sale of OEM mobile X-ray system and high pressure injector and the sale of our existing OEM products and taking into account that there are no legal impediments to register the mobile X-ray system and high pressure injector as medical devices as long as we are in compliance with applicable laws and regulations, as confirmed by our PRC Legal Advisers, our Directors therefore believe, and the Sole Sponsor concurs that we possess the relevant experience and expertise to procure the above products from OEM manufacturers, given (i) our well-established presence as a medical imaging film products and cloud services provider with a extensive customer base in Shandong Province; and (ii) that we engaged in the sale of mobile X-ray system of other brands on several occasions during the Track Record Period.

According to the PRC Legal Advisers, our Group has to apply for the registration of the syringe of the high pressure injector as a Class III medical device and the mobile X-ray system and the equipment of the high pressure injector as a Class II medical device; and obtain the relevant medical device registration certificates before the launch of the products. The details of costs to be incurred for applying for the certificates include:

- (i) costs to engage certification consultants: in order to assist and facilitate our application, we would have to engage certification consultants, who are familiar with the application procedures, and possess the required expertise, experience and knowledge of the relevant rules and regulations. The services they rendered include preparing for necessary documentation, arranging for clinical trials, communication with relevant authorities and overall project coordination and management;
- (ii) costs of arranging clinical trials (for Class III medical device registration certificate only): clinical trials and administrative expenses would be incurred during the application process, including expenses for various clinical trials during the application process and application fee for registration;
- (iii) cost of procuring the trial products from OEM manufacturers; and
- (iv) other administrative expenses.

## **BUSINESS**

In light of the above, we believe the expansion of product portfolio will broaden our income stream, and enable us to become a one-stop medical imaging products supplier.

To finance the above registration of Class III and II medical device registration certificates, we expect that approximately HK\$[REDACTED] million of the [REDACTED] of the [REDACTED], will be utilised for such purpose.

### **Continue to promote our brands and increase market awareness by participating in exhibitions**

We plan to enhance our sales and marketing efforts, promote our brand and enhance awareness of our corporate image by participating in more exhibitions to showcase our medical imaging film products and cloud services to potential buyers, raise our corporate profile in the industry, expand our procurement network and enhance our product offerings.

We attended the China International Medical Equipment Fair (CMEF) in Shenzhen and Shanghai during the Track Record Period and we expect to participate in the CMEF and China International Medical Equipment Exhibition (CMEE) in Jinan in the upcoming years. The expected costs to be incurred include (i) rental of the booth; (ii) transportation and accommodation fees; and (iii) business development fees including, booth design and construction fees and rental of the electronic devices.

By participating in the abovementioned exhibitions, we expect to (i) meet more suppliers and explore new business opportunities so as to broaden our product portfolio; (ii) obtain the latest information of the medical device market, including recent technological development, market trend and customers’ feedback and preferences; and (iii) enhance our sourcing capability and strengthen our competency in providing market trend analysis to our customers.

To finance the above expenditures, we expect that approximately HK\$[REDACTED] million of the [REDACTED] of the [REDACTED], will be utilised for such purpose.

### **Upgrade our information technology systems**

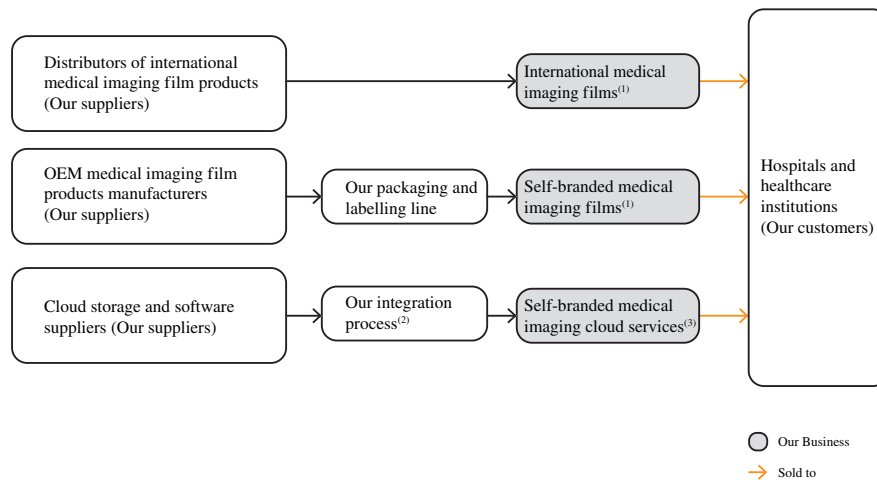
We intend to upgrade our information technology systems by having new computer hardware and software and adopting a new enterprise resources planning system so as to enhance our operational and management efficiency. We purchased our current enterprise resources planning system with basic functions on inventory and sales management in September 2020. In view of the limited functionalities provided by our current system, our Directors consider that it is necessary to upgrade our information technology systems as we need to expand the features and functionalities of our enterprise resources planning system to cope with our business expansion, in particular, one that can facilitate budget management, ledger consolidation, credit management, financial analysis and projections, human resources management and administration functions. Furthermore, we plan to upgrade our in-house technology infrastructure to support our evolving R&D activities, for instance renting more servers, expanding connectivity bandwidth and updating our firewalls. The estimated cost of upgrading our information technology system is approximately HK\$[REDACTED] million, which is expected to be financed by the [REDACTED] from the [REDACTED]. We believe that such upgrade will provide us with a wider range of information-based solutions in a more efficient manner, and hence enhance our operating efficiency.

## BUSINESS

### OUR BUSINESS MODEL

We are a medical imaging solutions provider, principally engaged in providing medical imaging film products and medical imaging cloud services in Shandong Province. When a new client approaches us, if necessary, we will first conduct initial consultation with our potential customers through field surveys in hospitals and healthcare institutions. During the field survey, our staff will gather necessary information and try to understand the technical requirements and specifications of the medical imaging film products and medical imaging cloud services. We will also provide after-sales services to our customers upon delivery of our products and services. For further details of our business workflow, please refer to the paragraph “Our Business Workflow” in this section.

The following diagram illustrates our main business model:



*Notes:*

- (1) In the course of the sale of medical imaging films, depending on our customers’ needs, we will provide the corresponding self-service film output printer and/or medical image printer to them and our customers are not charged for the corresponding equipment. Occasionally, we also provide medical image data distribution system (including CDs) without charging our customers. The ownership of the equipment belongs to our Group. In the event of termination/discontinuation of the business relationship with our customers, the equipment provided to our customers during the course of the sale of medical imaging films are required to be returned. The reason for providing the corresponding self-service film output printer and medical image printer is to avoid incompatibility and distortion of images due to the use of different brands of medical imaging films, self-service film output printer and/or medical image printer.
- (2) To connect the software and the existing information technology systems of our customers, our integration process includes (i) installing the software to the existing information technology systems of our customers and formulating an application programme interface (API); and (ii) installing a hard drive called front-end processor on-site.
- (3) Medical practitioners and patients can retrieve the medical data from the digital medical imaging cloud storage platform provided by us

## BUSINESS

### (i) Sale of medical imaging films

We engage in the sale of (i) medical imaging films procured from international brands, including the Medical Imaging Products Manufacturer, and (ii) medical imaging films under our own “冠澤慧醫” (Guanze Huiyi) brand to hospitals and healthcare institutions. In the course of the sale of medical imaging films, depending on our customers’ needs, we will provide the corresponding self-service film output printer and/or medical image printer to them and our customers are not charged for the corresponding equipment. Occasionally, we also provide medical image data distribution system (including CDs) without charging our customers. The ownership of the said equipment belongs to our Group. In the event of termination/discontinuation of the business relationship with our customers, the equipment provided to our customers during the course of the sale of medical imaging films are required to be returned. The reason for providing the corresponding self-service film output printer and medical image printer is to avoid incompatibility and distortion of images due to the use of different brands of medical imaging films, self-service film output printer and/or medical image printer.

Our self-branded medical imaging films are manufactured by OEM manufacturers, and further packaged and labelled by us while our self-branded medical imaging printers are manufactured by OEM manufacturers.

### (ii) Provision of medical imaging cloud services

Further, we will also offer four types of medical imaging cloud services including (i) digital medical imaging cloud storage platform; (ii) digital medical image platform; (iii) regional imaging diagrams platform; and (iv) PACS system, in the course of the sale of medical imaging films.

### Revenue generated from our products and services

During the Track Record Period, the medical imaging film products business segment accounted for the majority of our revenue. For the three years ended 31 December 2021 and the six months ended 30 June 2022, our sale of medical imaging film products accounted for approximately 91.5%, 93.7%, 93.3% and 94.1%, respectively, of our total revenue, and our provision of medical imaging cloud services accounted for approximately 8.5%, 6.3%, 6.7% and 5.9%, respectively, of our total revenue. The table below sets out our revenue of our products and services during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
<b>Sale of medical imaging film products</b>										
— Sale of medical imaging films	127,138	90.3	165,675	89.8	196,361	93.0	100,503	94.1	92,621	93.9
— Others ( <i>Note</i> )	1,771	1.2	7,120	3.9	565	0.3	62	0.1	149	0.2
<b>Sub-total</b>	128,909	91.5	172,795	93.7	196,926	93.3	100,565	94.2	92,770	94.1
<b>Provision of medical imaging cloud services</b>	11,916	8.5	11,640	6.3	14,150	6.7	6,163	5.8	5,851	5.9
<b>Total</b>	140,825	100	184,435	100	211,076	100	106,728	100	98,621	100

*Note:* Others mainly refer to the sale of self-service film output printer, medical image printer, medical image data distribution system and CDs and the maintenance fees and rental income of medical devices. Upon the sale of equipment, the ownership of the equipment belongs to the purchasers.

## BUSINESS

### Revenue contributed by our customers

Over the years of operation, we have accumulatively served over 90 customers in Shandong Province from the date of our inception until the Latest Practicable Date, which cover (i) over 80 public hospitals and (ii) over 6 private hospitals; and (iii) other customers (such as medical equipment manufacturers and medical films trading companies). Public hospitals in Shandong Province constituted our core customer base and accounted for approximately 99.4%, 99.3%, 99.4% and 99.2% of our revenue for the three years ended 31 December 2021 and the six months ended 30 June 2022, respectively. The table below sets out our revenue from our customers during the Track Record Period:

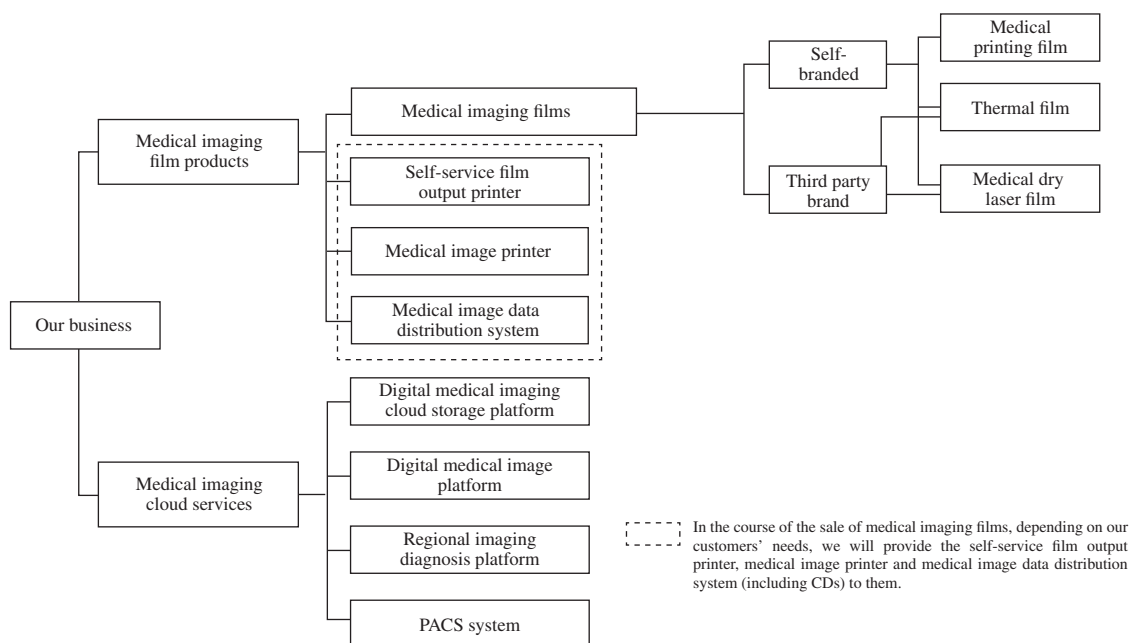
	For the year ended 31 December						For the six months ended 30 June			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
<b>Hospitals</b>										
Public hospitals	139,876	99.4	183,122	99.3	209,861	99.4	105,821	99.2	97,796	99.2
Private hospitals	774	0.5	883	0.5	1,136	0.5	574	0.5	797	0.8
<b>Sub-total</b>	<u>140,650</u>	<u>99.9</u>	<u>184,005</u>	<u>99.8</u>	<u>210,997</u>	<u>99.9</u>	<u>106,396</u>	<u>99.7</u>	<u>98,593</u>	<u>100</u>
Others <sup>(Note 1)</sup>	175	0.1	430	0.2	79	0.0 <sup>(Note 2)</sup>	333	0.3	28	0.0 <sup>(Note 2)</sup>
<b>Total</b>	<u>140,825</u>	<u>100</u>	<u>184,435</u>	<u>100</u>	<u>211,076</u>	<u>100</u>	<u>106,728</u>	<u>100</u>	<u>98,621</u>	<u>100</u>

Note:

- (1) Others represent medical equipment manufacturers and medical film trading companies.
- (2) Represented less than 0.1%

### OUR PRODUCTS AND SERVICES

The following diagram illustrates the categories and major types of products and services provided by us during the Track Record Period.



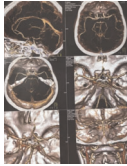


## BUSINESS

### Medical imaging film products

#### *Medical imaging films*

Medical imaging film refers to the medium used to carry the graphic information of medical images and is used by medical practitioners as an auxiliary tool to diagnose patients’ condition. We provided our customers with medical imaging films of different brands, in particular, the Medical Imaging Products Manufacturer and our “冠澤慧醫”(Guanze Huiyi) brand. Our self-branded medical imaging films were manufactured by OEM manufacturers, which are further packaged and labelled by us. The types of medical imaging films distributed or provided by us during the Track Record Period primarily include medical dry laser film, thermal film and medical printing film. Set forth below is a brief introduction of each type of medical imaging films provided by us:

Product name	Description and output colour	Clinical applications	Printing speed	Photographs	Brands
Medical dry laser film	<ul style="list-style-type: none"> <li>● A polyester film coated with silver halide and protective layers. It has the characteristics of higher contrast and definition</li> <li>● Black and white output</li> </ul>	CT, MRI, DR	Fast		Medical Imaging Products Manufacturer, 冠澤慧醫 (Guanze Huiyi) (Note)
Thermal film	<ul style="list-style-type: none"> <li>● A polyester film coated with thermal and protective layers</li> <li>● Mainly black and white output</li> </ul>	CT, MRI, CR, DR, etc.	Average		冠澤慧醫 (Guanze Huiyi) and other international brand
Medical printing film	<ul style="list-style-type: none"> <li>● A traditional printing film which is composed of polyester film base, anti-static layer and ink absorption layer</li> <li>● Black and white or colour output</li> </ul>	CT, MRI	Slow		冠澤慧醫 (Guanze Huiyi)

*Note:* Our Group commenced the sale of our self-branded medical dry laser film in June 2021. Our self-branded medical dry laser films are manufactured by OEM manufacturers, and further packaged and labelled by us.

The average thickness of our self-branded medical imaging films is approximately 0.2mm, which is consistent with the industry specifications. Generally, the life span of our self-branded medical imaging films and third-party branded medical imaging films are approximately two years, which are consistent with the industry average, according to CIC.

## **BUSINESS**

Before October 2017, we were the Tier-1 distributor of the medical imaging film products of the Medical Imaging Products Manufacturer, including the medical dry laser film, in Shandong Province and subsequently, our Directors confirmed that we initiated the termination of our distributorship with the Medical Imaging Products Manufacturer as (i) we intended to focus our efforts in establishing our own brand, and (ii) the presence of minimum purchase targets of other ancillary products and services required to be met for being a Tier-1 distributor of the Medical Imaging Products Manufacturer. Our Directors confirmed that our Group met the minimum purchase target of being a Tier-1 distributor throughout the time when we were engaged as a Tier-1 distributor of the Medical Imaging Products Manufacturer. Leveraging on our established customer base in the medical imaging market in Shandong Province and to increase our profitability, we started to sell our self-branded medical printing films and thermal films in 2018. In addition, to mitigate the supplier concentration risk, we started to engage in the sale of our self-branded medical dry laser film in June 2021, which were manufactured by our OEM manufacturers, then further packaged and labelled by us. Our Directors believe that we can attract potential customers to procure our self-branded medical dry laser film by offering them more competitive price.



**BUSINESS**

The following table sets out our Group’s revenue, sales volume and selling price range by types of medical imaging films during the Track Record Period.

	Six months ended 30 June											
	Year ended 31 December				2021				2022			
	2019		2020		2021		2021		2022		2022	
Revenue	Sales volume	Average selling price	Selling price range	Revenue	Sales volume	Average selling price	Selling price range	Revenue	Sales Volume	Average selling price	Selling price range	
(RMB '000)	(piece '000)	(RMB/ piece)	(RMB/ piece)	(RMB '000)	(piece '000)	(RMB/ piece)	(RMB/ piece)	(RMB '000)	(piece '000)	(RMB/ piece)	(RMB/ piece)	
Medical dry laser film	114,826	8,080	14.2	6.0-17.5	131,048	8,712	15.0	6.6-17.5	143,680	9,959	14.4	3.6-18.1
Thermal film	10,583	1,006	10.5	3.5-15.0	33,266	3,221	10.3	3.5-16.4	50,824	4,613	11.0	4.0-16.4
Medical printing film	1,729	226	7.7	2.9-18.1	1,361	234	5.8	1.7-18.1	1,857	341	5.4	2.9-18.1
<b>Total</b>	<u>127,138</u>	<u>9,312</u>			<u>165,675</u>	<u>12,167</u>			<u>196,361</u>	<u>14,913</u>		
								<u>100,503</u>	<u>7,433</u>			<u>92,621</u>
												<u>7,235</u>

Note: The selling price range refers to the lowest selling price of the smallest size of the film and the highest selling price of the largest size of the film. The larger the size of the film, the higher the price.

According to CIC, the most common size of the medical imaging film used in diagnosis imaging is 14 x17 inches. For illustration purposes, during the Track Record Period, our Group’s average selling price of (i) medical dry laser film in 14x17 inches was RMB15.6 per piece, RMB15.5 per piece, RMB14.6 per piece and RMB13.6 per piece; (ii) thermal film in 14x17 inches was RMB11.6 per piece, RMB10.7 per piece, RMB11.0 per piece and RMB11.1 per piece; and (iii) medical printing film in 14x17 inches was RMB15.6 per piece, RMB15.0 per piece, RMB14.7 per piece and RMB14.0 per piece, respectively.

**BUSINESS**

The table below sets out our revenue, gross profit and gross profit margin by third parties' brand and our brand 冠澤慧醫 (Guanze Huiyi) under the medical imaging film products segment during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June											
	2019			2020			2021			2022								
	Revenue (RMB'000)	% of total revenue (RMB'000)	Gross profit margin (%)	Revenue (RMB'000)	% of total revenue (RMB'000)	Gross profit margin (%)	Revenue (RMB'000)	% of total revenue (RMB'000)	Gross profit margin (%)	Revenue (RMB'000)	% of total revenue (RMB'000)	Gross profit margin (%)						
Third parties' brands	117,640	91.3	27.1	140,562	81.3	28.3	142,076	72.1	40,744	28.7	75,448	75.0	21,315	28.3	63,427	68.4	18,181	28.7
冠澤慧醫 (Guanze Huiyi)	11,269	8.7	41.2	32,233	18.7	37.2	54,850	27.9	22,910	41.8	25,117	25.0	10,070	40.1	29,343	31.6	16,546	56.4
<b>Total revenue of the medical imaging film products business</b>	<b>128,909</b>	<b>100</b>	<b>28.4</b>	<b>172,795</b>	<b>100</b>	<b>30.0</b>	<b>196,926</b>	<b>100</b>	<b>63,654</b>	<b>32.3</b>	<b>100,565</b>	<b>100</b>	<b>31,385</b>	<b>31.2</b>	<b>92,770</b>	<b>100</b>	<b>34,727</b>	<b>37.4</b>

## BUSINESS

### *Third parties' brands*

During each of the three years ended 31 December 2021, the revenue generated from medical imaging film products of third parties' brands demonstrated an increasing trend which was primarily in line with the market growth. Such revenue decreased from approximately RMB75.4 million for the six months ended 30 June 2021 to approximately RMB63.4 million for the six months ended 30 June 2022 mainly due to the decrease in sales volume of medical dry laser films of the Medical Imaging Products Manufacturer brand as some of our customers who procured medical dry laser films of the Medical Imaging Products Manufacturer in the past shifted their desire to purchase our self-branded medical dry laser films. The gross profit margin of our third parties' brand medical imaging films remained relatively stable during the Track Record Period. The gross profit of medical imaging film products of third parties' brands generally follows the fluctuations in revenue during the Track Record Period.

### *Guanze Huiyi*

During the Track Record Period, the revenue derived from medical imaging films of Guanze Huiyi brand and its percentage relative to our total revenue demonstrated an increasing trend because (i) we have been actively developing our self-branded medical imaging films; and (ii) some of our customers who procured medical dry laser film of the Medical Imaging Products Manufacturer in the past shifted their desire to purchase our self-branded medical dry laser film.

The gross profit margin of the medical imaging films of the Guanze Huiyi brand decreased from approximately 41.2% for the year ended 31 December 2019 to approximately 37.2% for the year ended 31 December 2020 primarily brought by the decrease in gross profit margin of our self-branded medical printing film as we sold a smaller amount of large size medical printing film, which have a higher margin than small size medical printing film, in 2020. The gross profit margin of the medical imaging films of Guanze Huiyi brand increased from approximately 37.2% for the year ended 31 December 2020 to approximately 41.8% for the year ended 31 December 2021 primarily due to (i) the increase in gross profit margin of our self-branded thermal film attributable to the decrease in average cost brought by the rebate from Supplier B according to our rebate arrangement with them; and (ii) the slight increase in gross profit margin of our self-branded medical printing film. The gross profit margin of the Guanze Huiyi brand increased from approximately 40.1% for the six months ended 30 June 2021 to approximately 56.4% for the six months ended 30 June 2022 primarily (i) because we began to sell our self-branded medical dry laser films since June 2021 which generated a high gross profit margin because the average cost of procuring self-branded medical dry laser film from local OEM manufacturers is lower than the average cost of purchasing medical dry laser film of the Medical Imaging Products Manufacturer; and (ii) because of the increase in gross profit margin of our self-branded thermal film attributable to the decrease in average procurement cost of our self-branded thermal films, resulting from a larger purchase volume of self-branded thermal films procured from Supplier G, a local OEM manufacturer who is able to offer a lower average selling price as compared to the other international OEM manufacturers.

The gross profit from the medical imaging films of Guanze Huiyi brand demonstrated an increasing trend during the Track Record Period, which was due to the combined effect of (i) the increase in revenue; and (ii) the fluctuations in gross profit margin as mentioned above.

**BUSINESS**

The following table sets out our Group’s revenue, sales volume, gross profit, gross profit margin and average selling price by type and brands of our medical imaging films products during the Track Record Period:

	For the year ended 31 December														
	2019					2020					2021				
	Sales volume (piece '000)	Revenue (RMB '000)	Gross profit (RMB '000)	Gross profit margin (%)	Average selling price (RMB/ piece)	Sales volume (piece '000)	Revenue (RMB '000)	Gross profit (RMB '000)	Gross profit margin (%)	Average selling price (RMB/ piece)	Sales volume (piece '000)	Revenue (RMB '000)	Gross profit (RMB '000)	Gross profit margin (%)	Average selling price (RMB/ piece)
<b>Medical dry laser films</b>															
Medical Imaging Products Manufacturer Guanze Huiyi	8,080	114,826	31,711	27.6	14.2	8,712	131,048	36,611	27.9	15.0	9,809	142,076	40,744	28.7	14.5
<b>Sub-total</b>	<b>8,080</b>	<b>114,826</b>	<b>31,711</b>	<b>27.6</b>	<b>14.2</b>	<b>8,712</b>	<b>131,048</b>	<b>36,611</b>	<b>27.9</b>	<b>15.0</b>	<b>9,959</b>	<b>143,680</b>	<b>41,606</b>	<b>29.0</b>	<b>14.4</b>
<b>Thermal films</b>															
Guanze Huiyi	918	9,495	3,092	32.6	10.3	3,024	30,432	10,840	35.6	10.1	4,613	50,824	20,420	40.2	11.0
Other third-party brand	88	1,088	136	12.5	12.4	197	2,834	432	15.2	14.4	—	—	—	—	—
<b>Sub-total</b>	<b>1,006</b>	<b>10,583</b>	<b>3,228</b>	<b>30.5</b>	<b>10.5</b>	<b>3,221</b>	<b>33,266</b>	<b>11,272</b>	<b>33.9</b>	<b>10.3</b>	<b>4,613</b>	<b>50,824</b>	<b>20,420</b>	<b>40.2</b>	<b>11.0</b>
<b>Medical printing films</b>															
Guanze Huiyi	226	1,729	1,515	87.6	7.7	234	1,361	960	70.5	5.8	341	1,857	1,342	72.3	5.4
<b>Sub-total</b>	<b>226</b>	<b>1,729</b>	<b>1,515</b>	<b>87.6</b>	<b>7.7</b>	<b>234</b>	<b>1,361</b>	<b>960</b>	<b>70.5</b>	<b>5.8</b>	<b>341</b>	<b>1,857</b>	<b>1,342</b>	<b>72.3</b>	<b>5.4</b>
<b>Total</b>	<b>9,312</b>	<b>127,138</b>	<b>36,454</b>	<b>28.7</b>		<b>12,167</b>	<b>165,675</b>	<b>48,843</b>	<b>29.5</b>		<b>14,913</b>	<b>196,361</b>	<b>63,368</b>	<b>32.3</b>	

**BUSINESS**

		For the six months ended 30 June									
		2021			2022						
		Sales volume (piece '000)	Revenue (RMB '000)	Gross profit (RMB '000)	Gross profit margin (%)	Average selling price (RMB/ piece)	Sales volume (piece '000)	Revenue (RMB '000)	Gross profit (RMB '000)	Gross profit margin (%)	Average selling price (RMB/ piece)
<b>Medical dry laser films</b>	Medical Imaging Products Manufacturer Guanze Huiyi	5,073	75,386	21,754	28.9	14.9	4,543	63,427	18,181	28.7	14.0
	<b>Sub-total</b>	5,073	75,386	21,754	28.9	14.9	4,854	66,569	20,092	30.2	13.7
	<b>Thermal films</b>										
	Guanze Huiyi	2,185	24,189	9,414	38.9	11.0	2,250	25,243	13,975	55.4	11.2
	Other third-party brand	—	—	—	—	—	—	—	—	—	—
	<b>Sub-total</b>	2,185	24,189	9,414	38.9	11.0	2,250	25,243	13,975	55.4	11.2
<b>Medical printing films</b>	Guanze Huiyi	175	928	656	70.7	5.3	151	809	558	68.9	5.4
	<b>Sub-total</b>	175	928	656	70.7	5.3	151	809	558	68.9	5.4
	<b>Total</b>	7,433	100,503	31,824	31.7		7,255	92,621	34,625	37.4	

## BUSINESS

### *Medical dry laser films*

The sales volume and revenue generated from medical dry laser films of the Medical Imaging Products Manufacturer increased steadily during each of the three years ended 31 December 2021 which was in line with the growth of the medical imaging market in China and Shandong Province. For the six months ended 30 June 2022, the sales volume and revenue generated from medical dry laser films of the Medical Imaging Products Manufacturer decreased as compared to the same period of last year, which was mainly attributable to (i) two of our five largest customers (i.e. Jining No.1 Hospital and Jining Affiliated Hospital) shifted their demand to other models of medical dry laser film of Medical Imaging Products Manufacturer (namely AMB and DVS model), which (a) are sold at a lower selling prices than the model they procured in the past (namely DVB model); (b) have been distributed to our customers since late May 2021; and (c) the quality of AMB and DVS models are comparable to DVB model; and (ii) some of our customers who procured medical dry laser film of the Medical Imaging Products Manufacturer in the past shifted their desire to purchase our self-branded medical dry laser film. The gross profit from the medical dry laser film of the Medical Imaging Products Manufacturer remained relatively stable during the Track Record Period, which was consistent with the trend of the revenue. For details of AMB, DVS and DVB models, please refer to the paragraph headed “AMB, DVS and DVB models of medical dry laser film of Medical Imaging Products Manufacturer” in this section below.

The gross profit margin of the medical dry laser film of the Medical Imaging Products Manufacturer increased slightly from approximately 27.6% for the year ended 31 December 2019 to approximately 27.9% for the year ended 31 December 2020, and further increased to approximately 28.7% for the year ended 31 December 2021. The gross profit margin of the medical dry laser film of the Medical Imaging Products Manufacturer decreased slightly from approximately 28.9% for the six months ended 30 June 2021 to 28.7% for the six months ended 30 June 2022. The increase in our gross profit margin from 2020 to 2021 was primarily because we sold a larger amount of medical dry laser films of DVE 25cm x 30cm, which normally generated a higher margin, in 2021. The average selling price of the medical dry laser film of the Medical Imaging Products Manufacturer remained relatively stable during the Track Record Period.

We only began to sell our self-branded medical dry laser films since June 2021. As a result, sales volume, revenue, gross profit, gross profit margin and average selling prices were only recorded for the year ended 31 December 2021 and the six months ended 30 June 2022. The gross profit margin of the medical dry laser film of Guanze Huiyi and Medical Imaging Products Manufacturer were approximately 53.7% and 28.7%, respectively, for the year ended 31 December 2021 and approximately 60.8% and 28.7%, respectively, for the six months ended 30 June 2022. The higher gross profit margin of our self-branded medical dry laser film was primarily because the average cost of procuring self-branded medical dry laser film from local OEM manufacturers is lower than the average cost of purchasing medical dry laser film of the Medical Imaging Products Manufacturer. According to CIC, the cost of purchasing branded medical films from a well-established medical film manufacturers is generally higher than non-branded medical films from OEM manufacturers.

## BUSINESS

### *Thermal films*

The sales volume and revenue of our self-branded thermal films demonstrated an increasing trend during the Track Record Period, which was primarily due to our effort to develop our self-branded products. The gross profit of our self-branded thermal film also demonstrated an increasing trend during the Track Record Period, which was consistent with the trend of its revenue. The gross profit margin of our self-branded thermal film increased from approximately 32.6% for the year ended 31 December 2019 to approximately 35.6% for the year ended 31 December 2020, and further increased to approximately 40.2% for the year ended 31 December 2021. The steady increase was primarily attributable to the decrease in average cost brought by the rebate from Supplier B according to our rebate arrangement with them. The gross profit margin of our self-branded thermal film increased from approximately 38.9% for the six months ended 30 June 2021 to 55.4% for the six months ended 30 June 2022. Such a significant increase during the six months ended 30 June 2022 was primarily attributable to the decrease in average procurement cost of our self-branded thermal films, resulting from a larger purchase volume of self-branded thermal films procured from Supplier G, a local OEM manufacturer who is able to offer a lower average selling price as compared to the other international OEM manufacturers. The average selling price of our self-branded thermal films remained relatively stable during the Track Record Period.

For other third-party brands' thermal films, the sales volume and revenue increased from 2019 to 2020 which was in line with the market growth. According to CIC, due to the steady increase in the number of patients with cardiovascular diseases, cancer and other diseases caused by the ageing of the population and other factors, and with the continuous increase in per capita medical expenditures, the demand for imaging diagnosis services has increased significantly. This has led to the increase in demand of our medical imaging films. The increase in gross profit was consistent with the trend of revenue during the same period. The gross profit margin from other third-party brands' thermal film increased from approximately 12.5% for the year ended 31 December 2019 to approximately 15.2% for the year ended 31 December 2020, primarily attributable to the sale of thermal films to one of our customers with higher average selling price as a result of commercial negotiation. Since 2021, we did not sell thermal films of other third-party brands.

The gross profit margins of our self-branded thermal film were higher than that of other third-party branded thermal film for each of the years ended 31 December 2019 and 2020. This was primarily because the average cost of procuring self-branded thermal films from local OEM manufacturers is lower than the average cost of purchasing thermal film from third-party brand. According to CIC, the cost of purchasing branded medical films from a well-established medical film manufacturer is generally higher than the cost of non-branded medical films from OEM manufacturers.

## BUSINESS

### *Medical printing films*

We only sold medical printing films under our own brand Guanze Huiyi during the Track Record Period. During the three years ended 31 December 2021, the sales volume of our medical printing film increased slightly with the growth of our business. The revenue generated from the sale of medical printing film decreased from approximately RMB1.7 million for the year ended 31 December 2019 to approximately RMB1.4 million for the year ended 31 December 2020 because of the decrease in average selling price from approximately RMB7.7 per piece to approximately RMB5.8 per piece during the same period. Such fluctuation was mainly because we sold a larger amount of large size medical printing film, which have a higher average selling price than small size medical printing film, in 2019. This also led to the decrease in gross profit margin from medical printing film from approximately 87.6% for the year ended 31 December 2019 to approximately 70.5% for the year ended 31 December 2020 as the sale of a large size medical printing film normally generated a higher margin than a small size medical printing film. The revenue generated from the sale of medical printing film increased with the sale volume for the year ended 31 December 2021. The gross profit also increased along with the increase in revenue, while the gross profit margin and average selling price remained relatively stable during 2020 and 2021.

For the six months ended 30 June 2022, the revenue generated from the sale of our self-branded medical printing film, its sales volume and its gross profit margin decreased slightly as compared to the same period of last year. The gross profit for the six months ended 30 June 2022 also decreased along with the decrease in revenue. The average selling price of our self-branded medical printing films remained stable for each of the six months ended 30 June 2021 and 2022.

For the reasons for the fluctuations of the unit selling prices of each type of film products during the Track Record Period, please refer to “Financial Information — Description of certain items from consolidated statements of profit or loss and other comprehensive income — Revenue — Revenue by film products”.

### *Comparison with industry selling prices*

According to CIC, as (i) the average selling price varies across hospitals customers; (ii) there is no official guidance price in the market; and (iii) the same film products can be of different dimension and size, it is not meaningful to present a single average selling price for comparison purpose. Therefore, price range is employed. According to CIC, the market average selling prices range of (i) medical dry laser film ranges from approximately RMB13 per piece to RMB21 per piece; (ii) thermal film ranges from approximately RMB9.5 per piece to RMB18.5 per piece; and (iii) medical printing film ranges from approximately RMB7 per piece to RMB11 per piece. During the Track Record Period, the selling prices range of our (i) medical dry laser film ranges from approximately RMB3.6 per piece to RMB18.1 per piece; (ii) thermal film ranges from approximately RMB3.5 per piece to RMB16.4 per piece; and (iii) medical printing film ranges from approximately RMB1.7 per piece to RMB18.1 per piece. The major reasons for the deviation of our selling price range from the market price range are as follows: (i) we occasionally sold our products at a lower price in order to attract customers and open up new market or to facilitate our inventory turnover and avoid inventory obsolescence; and (ii) we sold our products at a higher price due to commercial negotiation.



## BUSINESS

### ***AMB, DVS and DVB models of medical dry laser film of Medical Imaging Products Manufacturer***

According to CIC, the common measurements of a medical dry laser film are film fog and maximum density. The common film fog level of a medical dry laser film should be less than or equal to 0.3 and the common maximum density level of a medical dry laser film should be more than or equal to 2.4.

The table below sets forth the characteristics of AMB, DVS and DVB models of medical dry laser film of Medical Imaging Products Manufacturer.

	<b>Film fog</b> <i>(Note 1)</i>	<b>Maximum density</b> <i>(Note 2)</i>
<b>AMB model</b>	0.17	2.61
<b>DVS model</b>	0.19	3.13
<b>DVB model</b>	0.19	3.82

*Notes:*

- (1) The lower the fog level, the higher the contrast level.
- (2) The higher the density level, the darker the film can be.

The table below sets forth the sales volume and average selling price of AMB, DVS and DVB models of medical dry laser film of Medical Imaging Products Manufacturer.

	Year ended 31 December						Six months ended 30 June			
	2019		2020		2021		2021		2022	
	Sales volume <i>(piece '000)</i>	Average selling price <i>(RMB/piece)</i>	Sales volume <i>(piece '000)</i>	Average selling price <i>(RMB/piece)</i>	Sales volume <i>(piece '000)</i>	Average selling price <i>(RMB/piece)</i>	Sales volume <i>(piece '000)</i>	Average selling price <i>(RMB/piece)</i>	Sales volume <i>(piece '000)</i>	Average selling price <i>(RMB/piece)</i>
Medical dry laser film of Medical Imaging Product Manufacturer										
AMB model	—	—	—	—	1,116	11.8	324	11.9	589	11.8
DVS model	—	—	—	—	920	11.2	160	11.2	1,163	11.4
DVB model	3,324	13.9	3,315	15.0	1,309	14.8	1,242	14.7	—	—

For the three financial years ended 31 December 2021 and the six months ended 30 June 2022, the average selling prices of AMB and DVS models of Medical Imaging Products Manufacturer remained stable. For the two financial year ended 31 December 2020, the average selling price of DVB model was RMB13.9 per piece and RMB15.0 per piece, respectively. The increase in average selling price of DVB model was mainly attributable to a larger sales volume of large size DVB model, which has a higher average selling price than small size DVB model as compared to the sales volume of large size DVB model in 2019. The average selling price of DVB model remained stable for the financial year ended 31 December 2021 and for the six months ended 30 June 2022.

## BUSINESS



For the two financial years ended 31 December 2020, our Group did not distribute any AMB and DVS models of medical dry laser film of Medical Imaging Products Manufacturer to our customers and the sales volume of DVB model remained stable. For the financial year ended 31 December 2021, our Group started to offer AMB and DVS models of medical dry laser film of Medical Imaging Products Manufacturer to our customers. Since the quality of AMB and DVS models are similar to DVB model and the selling prices of the two models are lower than the selling price of DVB model, some of our customers, including Jining No.1 Hospital and Jining Affiliated Hospital, shifted their model preferences to AMB and DVS models in 2021 and hence the sales volume of DVB model decreased drastically from 3.3 million pieces to 1.3 million pieces while the sales volume of AMB and DVS models were 1.1 million pieces and 920,000 pieces, respectively. The sales volume of AMB model increased from approximately 324,000 pieces for the six months ended 30 June 2021 to approximately 589,000 pieces for the six months ended 30 June 2022 and the sales volume of DVS model increased from approximately 160,000 pieces for the six months ended 30 June 2021 to approximately 1.2 million pieces for the six months ended 30 June 2022, which was mainly attributable to the shift of our customers’ model preference and demand from DVB model to AMB and DVS models, which (a) are sold at a lower selling prices than the selling price of DVB model; (b) have been distributed to our customers since late May 2021; and (c) the quality of AMB and DVS models are comparable to DVB model. For the six months ended 30 June 2022, our customers no longer procured DVB model from our Group.

### **Self-service film output printer, medical image printer and medical image data distribution system**



During the Track Record Period, we principally provided three types of medical imaging printers, namely self-service film output printer, medical image printer and medical image data distribution system. Our self-branded medical imaging printers are either (i) manufactured by OEM manufacturers or (ii) assembled by us and the components of which are sourced from OEM manufacturers (for self-service film output printer only).

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Generally, depending on our customers' needs, we will provide the self-service film output printer, medical image printer and medical image data distribution system (including CDs) in the course of the sale of medical imaging films and our customers are not charged for the corresponding equipment. The ownership of the equipment belongs to our Group. In the event of termination/discontinuation of the business relationship with our customers, the equipment provided to our customers during the course of the sale of medical imaging films are required to be returned. The reason for providing the corresponding self-service film output printer and medical image printer is to avoid incompatibility and distortion of images due to the use of different brands of medical imaging films, self-service film output printer and/or medical image printer. According to CIC, such a sales model is in line with the industry practise. Occasionally, we also (i) sell our medical imaging printers or (ii) provide rental and maintenance services to our customers. We also provide on-site technical assistance during the trial operation, maintenance services and after-sales technical supports on such products. Set forth below is a brief introduction of each type of medical imaging printers principally provided by us:

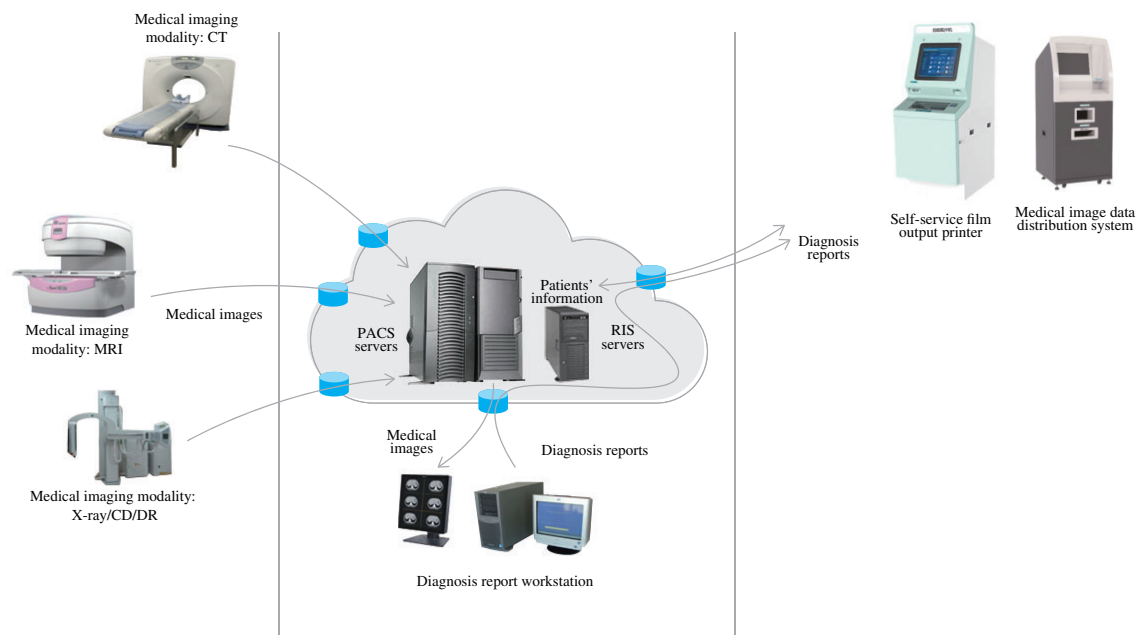
<b>Product name</b>	<b>Usage/Description</b>	<b>Application of the medical films</b>	<b>Photographs of our self-branded products</b>	<b>Brands</b>
Self-service film output printer	<ul style="list-style-type: none"> <li>• A medical self-service terminal for patients to print their own medical imaging films and reports anytime</li> <li>• Patients can print and obtain their diagnostic imaging reports and films by scanning their medical insurance cards, radio frequency identification cards, and barcodes</li> <li>• This avoids manually distributing the medical films, which in turn can save manpower and reduce the contact among people in the case of epidemics</li> <li>• Intended user: patients</li> </ul>	<ul style="list-style-type: none"> <li>• Medical dry laser film</li> <li>• Thermal film</li> <li>• Medical printing film</li> </ul>		Medical Imaging Products Manufacturer, 冠澤慧醫 (Guanze Huiyi)
Medical image printer	<ul style="list-style-type: none"> <li>• A printer for printing the medical images on the medical imaging films</li> <li>• Intended user: medical practitioners</li> </ul>	<ul style="list-style-type: none"> <li>• Medical dry laser film</li> <li>• Thermal film</li> <li>• Medical printing film</li> </ul>		冠澤慧醫 (Guanze Huiyi)

**BUSINESS**

Product name	Usage/Description	Photographs of our self-branded products	Brands
Medical image data distribution system	<ul style="list-style-type: none"> <li>The diagnostic imaging reports and films received by the system will be stored in a CD and the relevant medical information, including but not limited to the name of medical institution, patient information, type of medical imaging modalities used and examination date, will be printed on the CD surface at the same time</li> <li>Patients can burn a CD by scanning their medical insurance cards, ID cards and barcodes</li> <li>The CD can be read by different hospitals and would be more convenient for the patients to share data with another hospital.</li> <li>Intended user: patients</li> </ul>	 	冠澤慧醫 (Guanze Huiyi)

The following describes the standard operating procedures of the self-service film output printer and the medical image data distribution system. After patients scan their medical insurance cards, radio frequency identification cards, ID cards and barcodes, the operating system installed in the self-service film output printer and the medical image data distribution system will automatically receive non-medical data such as personal information of the patients from the RIS system and medical data and images from the medical imaging modalities, or make a request to the PACS system to obtain the medical data and images, which belong to the relevant patients. Medical images and reports will then be printed or stored in a CD. Depending on the customers' requirements, no matter it is a third party or self-branded medical imaging printers, the operating system can also be connected to our medical imaging cloud services through the front-end processor, which enables it to retrieve medical data stored therein. Below is an illustrative paragraph of the workflow of the medical imaging printers.

## BUSINESS



### *Accounting treatment of our self-service film output printer and medical image printer*

In the course of the sale of our medical imaging films, depending on our customers' needs, we will provide the corresponding self-service film output printer and/or medical image printer to them and our customers are not charged for the corresponding equipment. The reason for providing the corresponding self-service film output printer and medical image printer is to avoid incompatibility and distortion of images due to the use of different brands of medical imaging films, self-service film output printer and/or medical image printer.

Under such circumstances, the amount of the costs borne by our Group for the provision of such printers for each of the years/period comprising the Track Record Period was approximately RMB216,000, RMB828,000, RMB2.0 million and RMB1.2 million, respectively. Such costs were accounted as depreciation of property, plant and equipment and recorded as cost of sales in the Accountant's Report. The carrying amount of the relevant property, plant and equipment as at the end of each of the years/period comprising the Track Record Period was approximately RMB5.4 million, RMB11.3 million, RMB15.7 million and RMB18.9 million, respectively.

### **Medical imaging cloud services**

Our medical imaging cloud services provide four types of services, including (i) digital medical imaging cloud storage platform, (ii) digital medical image platform, (iii) regional imaging diagnosis platform and (iv) PACS system. We procure software which offer the above services from our software suppliers. We also engage our software suppliers for updates on the software including adding new functions and reducing bugs for at least four times a year. Our Group is responsible for installing the software to the existing information technology systems of our customers. To connect the software and the existing information technology systems of our customers, we are also required to (i) formulate an application programme interface (API) and (ii) install a hard drive called front-end processor on-site.

## BUSINESS

There is an actual business need in employing medical imaging cloud services for the hospitals in Shandong Province as a result of (i) the favourable government policies which encourage, amongst others, the use of medical cloud films and the sharing of medical data through online platform; and (ii) the improvement in hospital efficiency performance resulting from the employment of medical cloud services.

In general, we provide such medical imaging cloud services during the sale of medical imaging films. As at 31 December 2019, 2020, 2021 and 30 June 2022, and the Latest Practicable Date, the number of customers subscribing for our cloud services was 42, 51, 53, 53 and 55, respectively, which demonstrated an increasing trend.

### *Digital medical imaging cloud storage platform*

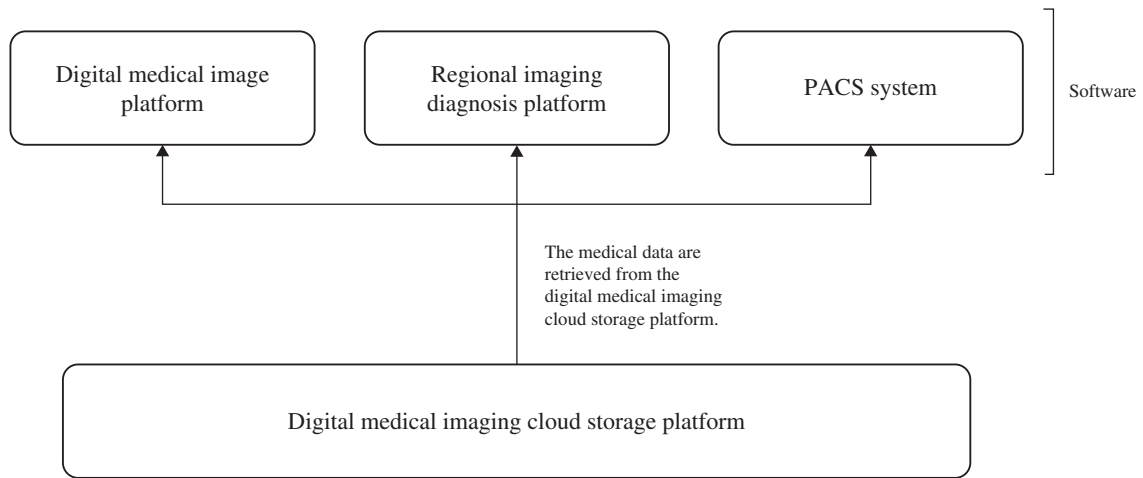
Our digital medical imaging cloud storage platform serves the function of storing and archiving patients’ digital medical images and diagnostic results. In short, it is a virtual storage platform. The major advantages of our platform include the followings:

- medical practitioners will be able to access to the patient’s medical image data anytime anywhere with his/her electronic devices whenever there is an internet connection
- the changes made to the files in platform will be synchronised automatically and updated across all of the devices having access to the cloud storage

Such a digital medical imaging cloud storage platform serves as a base of our provision of services as the medical data in the digital medical image platform, regional imaging diagnosis platform and medical cloud PACS system are saved in our digital medical imaging cloud storage platform.

**BUSINESS**

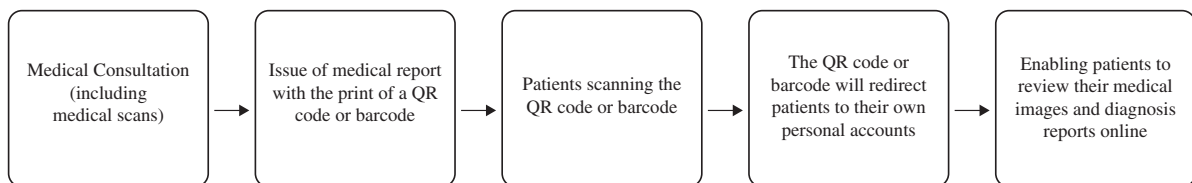
Below is an illustrative diagram of the workflow of the medical imaging cloud services.



***Digital medical image platform***

Digital medical image platform allows patients to obtain their own digital medical images and diagnosis reports by scanning a QR code or barcode generated by the hospitals and healthcare institutions which will then redirect to patients’ own personal account. Such a digital medical image platform facilitates and optimises the process of release and dissemination of digital medical images and information and hence improves patients’ diagnostic experience and satisfaction as well as enhances the efficiency of medical consultation process.

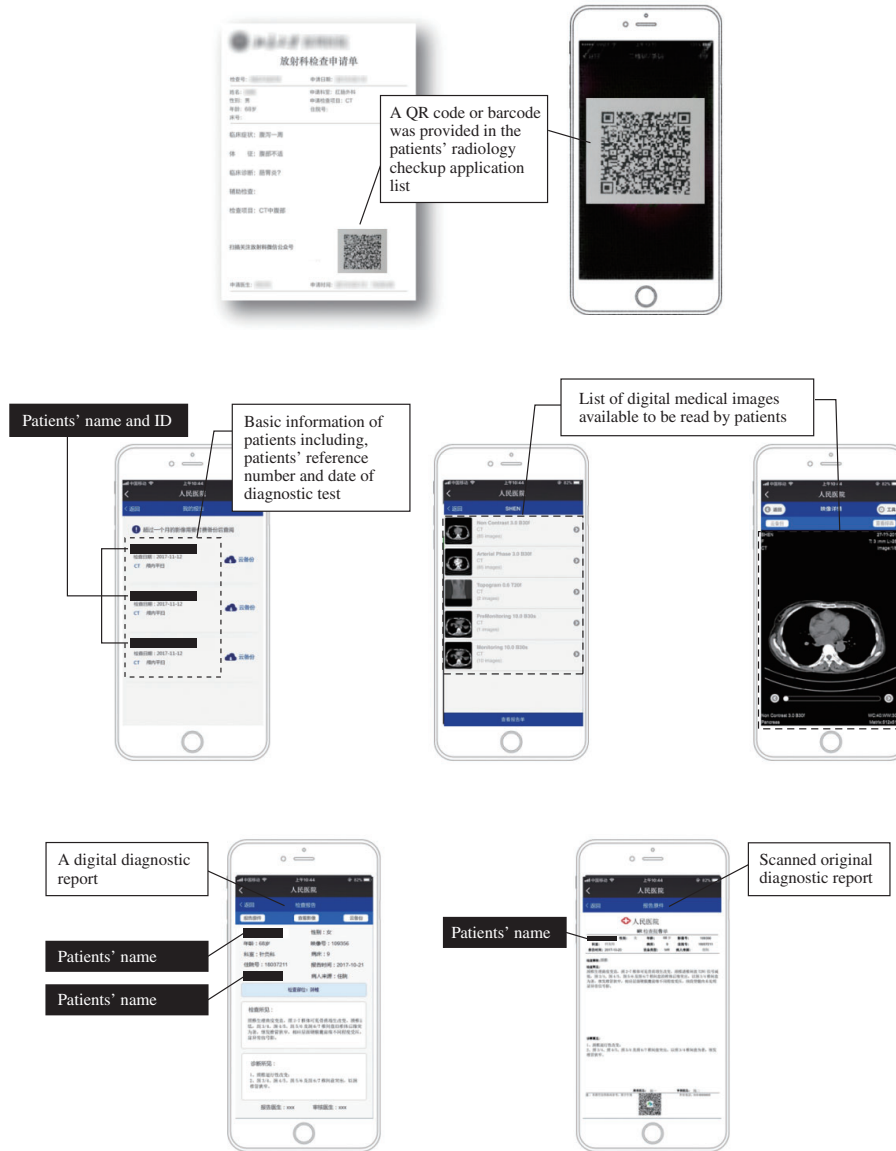
Below is a diagram illustrating how our digital medical image platform functions.



# BUSINESS

Below are the interfaces of the digital medical image platform:

## Digital medical image platform interfaces



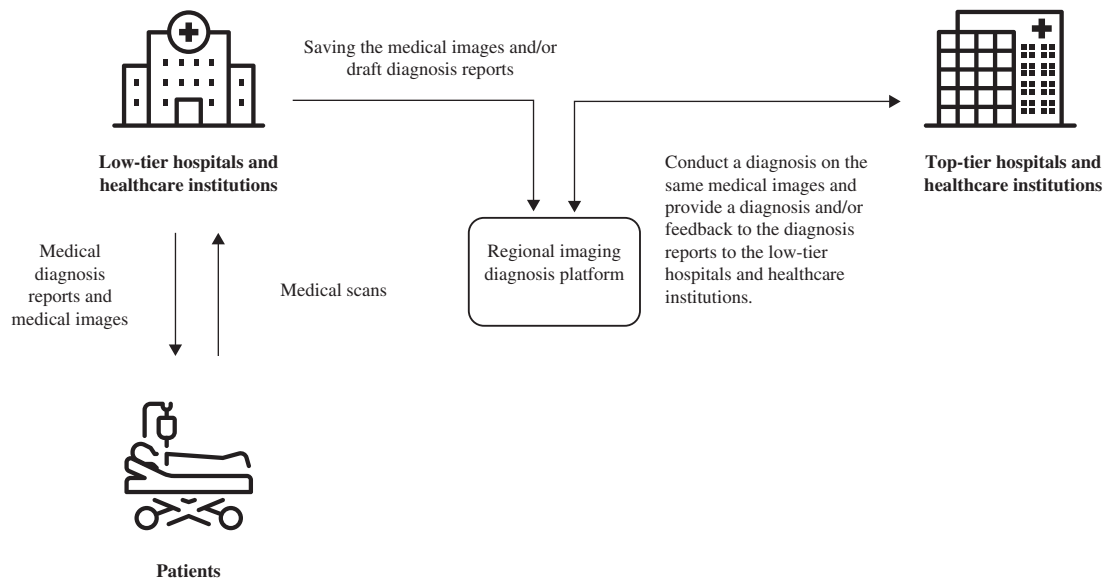


## BUSINESS

### *Regional imaging diagnosis platform*

The regional imaging diagnosis platform allows a diagnosis to be done or reviewed in a top-tier hospitals while medical scan on the patients can be conducted in a low-tier hospitals and healthcare institutions. According to CIC, since the low-tier hospitals and healthcare institutions in the PRC lack medical practitioners with extensive experience, such regional imaging diagnosis system allows the digital medical images and/or diagnosis reports of patients from low-tier hospitals and healthcare institutions to be uploaded to our regional imaging diagnosis platform, where the top-tier hospitals can also gain access to it, and the medical practitioners in top-tier hospitals and healthcare institutions will conduct a diagnosis on the same medical images and provide a diagnosis and/or feedback to the diagnosis reports to the low-tier hospitals and healthcare institutions. Our Directors believe such a platform can fill the gaps and break the barriers among different levels of healthcare institutions in terms of sharing the healthcare information and resources lying under the traditional healthcare system in China and resolve the issues regarding allocation of medical resources.

Below is a diagram illustrating how our regional medical imaging diagnosis platform functions.



*Note:* If the top-tier hospitals and healthcare institutions have engaged our Group in providing such services, we will install the software for the particular top-tier hospitals and healthcare institutions and its low-tier hospitals and healthcare institutions so as to allow the top-tier hospitals and healthcare institutions to gain access to the medical images and/or diagnosis reports uploaded to the platform by the low-tier hospitals and healthcare institutions.

# BUSINESS

Below is the interface of the regional imaging diagnosis platform:

## Regional imaging diagnosis platform interface

The screenshot displays the regional imaging diagnosis platform interface. Key components and annotations include:

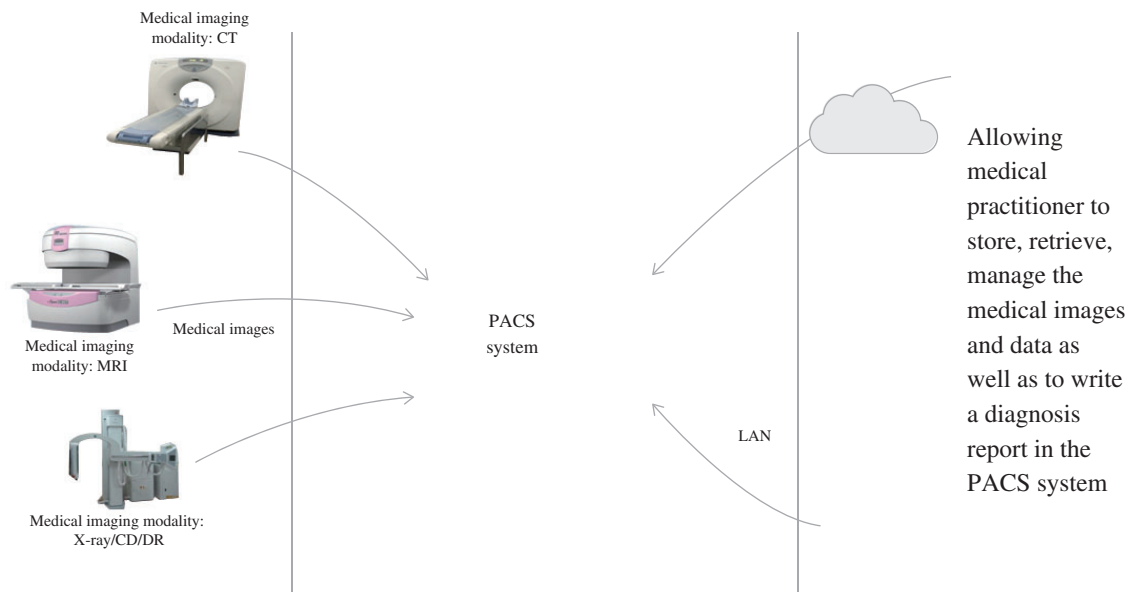
- Patients' ID** and **Patients' Name**: Callouts pointing to the patient information fields at the top left.
- Patients' conditions shown in the medical images**: A callout pointing to the text description of the medical image, which includes details like "性:男 年龄:57/岁 大:DX 部位:DR:左肘关节正侧位 设备:二院-DR室".
- Top-tier hospital can edit the diagnostic report written by the medical practitioners from the low-tier hospital or write a diagnostic report after reviewing the digital medical images saved in the platform.**: A callout pointing to the text area where the diagnostic report is written.
- A low-tier hospital will send a diagnostic request to a top-tier hospital.**: A callout pointing to the "会诊请求" (Consultation Request) form, which includes fields for "申请人" (Applicant), "申请信息" (Application Information), "城市" (City), "行 政 区" (Administrative District), "医疗机构" (Medical Institution), and "专家" (Expert).
- Patients' Name** and **Patients' ID**: Callouts pointing to the patient information fields within the consultation request form.
- Medical practitioners can refer to the medical knowledge hub to extract some common use of diagnostic language and sentence forms.**: A callout pointing to the left sidebar menu, which lists various medical categories like "CT", "MRI", "X-ray", etc.
- Diagnosis recommendations**: A callout pointing to the bottom left area of the interface.
- Patients' Name**, **Patients' Name**, and **Patients' date of birth**: Callouts pointing to the patient information fields at the bottom of the interface.

## BUSINESS

### *PACS system*

We provide both traditional PACS system and medical cloud PACS system. A traditional PACS system provides storage, retrieval, management, distribution and presentation of digital medical images from multiple medical modalities and diagnosis data without the need to manually file, retrieve or transport the physical medical images and data. It uses the server onsite to store the data. Hospitals and healthcare institutions must ensure the server has a sufficient capacity for an increasing data volume. With our medical cloud PACS system, the functions and applications are the same as the traditional PACS system but the digital medical images and data are stored in our digital medical imaging cloud storage platform to allow the authorised users to gain access to the data in the medical cloud PACS system anytime and anywhere provided that there is an internet connection.

Below is a diagram illustrating how our PACS system functions.



## BUSINESS

Below is the interface of both traditional PACS system and medical cloud PACS system.

### Traditional PACS system and medical cloud PACS system interface

The screenshot shows a medical PACS interface with several key components and annotations:

- Medical practitioners can refer to the medical knowledge hub to extract some common use of diagnostic language and sentence forms.** (Callout pointing to the top navigation bar)
- Medical practitioners can write the diagnostics report in the space provided below and request the diagnostic report to be printed in a standard report format.** (Callout pointing to the report text area)
- After patients have completed their diagnostic scans, their digital medical images and the relevant personal information will be transferred to the PACS system, which allows the retrieval by the medical practitioners.** (Callout pointing to the patient history table)
- Patients' ID** and **Patients' Name** (Labels pointing to the top header fields)
- Functions panel** (Label pointing to the right-hand sidebar)
- Patients' date of birth** and **Patients' ID** (Labels pointing to specific columns in the patient history table)
- Patients' conditions shown in the medical images** and **Diagnosis recommendations** (Labels pointing to the image thumbnails and the bottom text area)

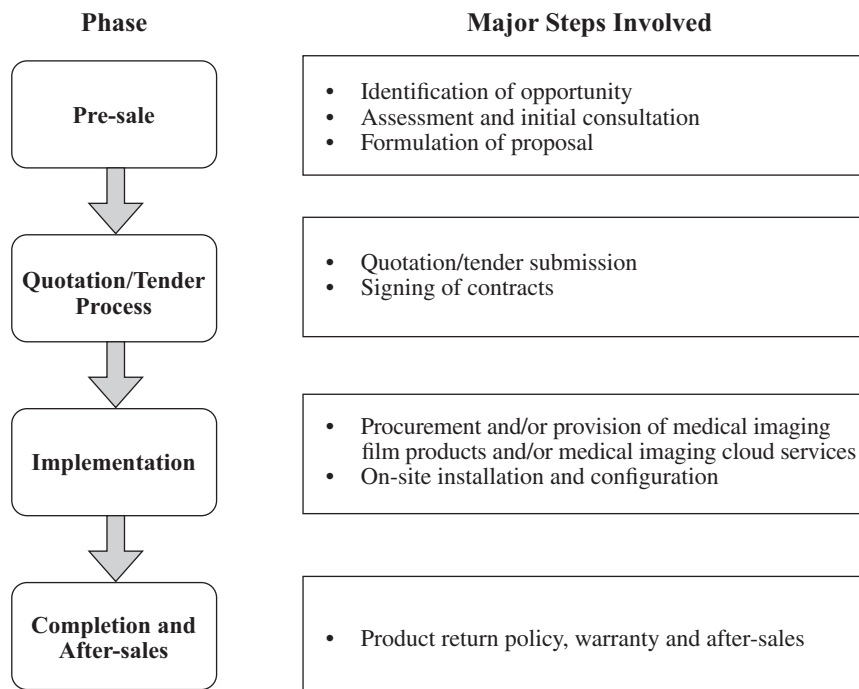
**Table: Patient History**

姓名	性别	籍贯	年龄	出生日期	检查部位	检查结论	来源	检查	送检科室	姓名拼音	出生日期	诊疗卡号	身份证号	患者编号	医生
车	女	33/岁	2021-07-26	11	颈部平扫未见明显异常	门诊	已保存	CBE						10	
车	女	34/岁	2021-07-26	4		门诊	已扫描	CBE						10	

**BUSINESS**

**OUR BUSINESS WORKFLOW**

The following diagram illustrates our business workflow:



**Pre-sale**

**(i) Identification of opportunity**

In general, we secure sales orders either through (i) tender, which includes open tender and tender by invitation; or (ii) quotation. Leveraging on the stable business relationship with hospitals and healthcare institutions and our well-established market reputation in Shandong Province, we receive requests or invitations for tender and quotations from hospitals and healthcare institutions for the supply of our products and services from time to time. We may also collect tender information through browsing relevant official websites of potential customers and local public tender websites on a regular basis and contact existing or potential customers to enquire any upcoming tender or quotation opportunity.

Our public hospitals and healthcare institution customers may be subject to the tendering and bidding process under the laws and regulations in relation to government procurement and tendering and bidding. For details, please refer to the paragraph headed “Regulatory Overview — Procurement of medical devices by public hospital and healthcare institutions” in this document.

## BUSINESS

### *(ii) Assessment and initial consultation*

Upon receipt of a tender or quotation invitation or any other business opportunities, our management will evaluate and perform assessment of the tender or quotation documents to identify the scope and complexity of work, product specification, costs and profitability, feasibility, resources availability and expertise, in order to ascertain whether to pursue the project.

When a potential customer approaches us, our engineering and sales personnel will first conduct initial consultation with the potential customer through field surveys in the hospitals and healthcare institutions. During the field survey, we will gather necessary information and try to understand the technical requirements and specifications of the medical imaging film products and medical imaging cloud services required by our customers.

### *(iii) Formulation of proposal*

If we decide to pursue with the project, our sales personnel will then formulate pitching proposals or relevant tender submission documents.

## **Quotation/Tender Process**

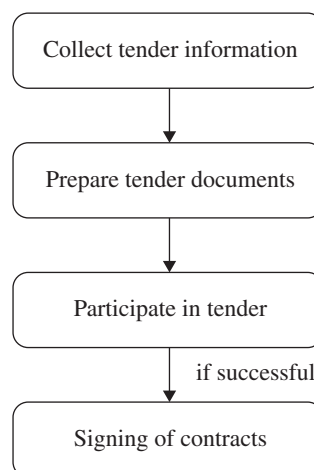
### *(i) Quotation/tender submission*

#### *Quotation*

Our sales personnel will submit quotation to our customers within the timeframe specified by our potential customers.

#### *Tendering*

Set out below is the general outline of the tendering procedure:



The tendering process, if required, is usually arranged by the hospitals and healthcare institutions themselves and it usually takes one month to complete.

## BUSINESS

Our sales department participates in tendering either through physical tendering or electronic bidding. In general, besides price assessment, the criteria considered by hospitals and healthcare institutions includes, among others, (i) the technicality, specification and quality of products and services; (ii) reliable and timely completion; (iii) qualification and track record of the tenderer; and (iv) warranty and after-sales services provided.

The outcome of the tender is normally announced in customers’ official websites, and we will be awarded with the contract if we win the tender. The following table sets forth our tender success rates during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June	
	2019	2020	2021	2021	2022
	Number of tenders submitted (Note 1)	5	10	5	4
Number of contracts awarded	3	7	4	3	1
Success rate (Note 2)	60.0%	70.0%	80.0%	75%	100.0%
Total contract sum of tenders awarded (RMB’000) (Note 3)	1,087	13,797	42,573	17,455	22,516

Notes:

- The tenders submitted refer to the tenders sent to our customers for their consideration.
- Tender success rate is calculated by dividing the number of contracts secured in respect of the tenders submitted during the relevant period by the number of tenders submitted during the relevant period.
- Depending on the commencement date and the term of the relevant tender contract, the contract sum of the tender awarded to our Group may not be recognised as revenue in the financial year in which the relevant tender is awarded, and all or part of the contract sum may be recognised as revenue in the following financial year(s).

The table below sets out the breakdown of our revenue attributable to orders obtained through tendering or quotation during the Track Record Period.

	For the year ended 31 December						For the six months ended 30 June			
	2019		2020		2021		2021		2022	
	RMB’000	Approximate %	RMB’000	Approximate %	RMB’000	Approximate %	RMB’000	Approximate %	RMB’000	Approximate %
Tendering	1,087	0.8	13,797	7.5	42,573	20.2	17,455	16.4	22,516	22.8
Quotation	139,738	99.2	170,638	92.5	168,503	79.8	89,273	83.6	76,105	77.2
<b>Total</b>	<b>140,825</b>	<b>100</b>	<b>184,435</b>	<b>100</b>	<b>211,076</b>	<b>100</b>	<b>106,728</b>	<b>100</b>	<b>98,621</b>	<b>100</b>

## BUSINESS

### *(ii) Signing of contracts*

Upon being selected as their suppliers, we will generally enter into a framework sales agreements with hospitals, healthcare institutions and/or deliverers and will supply our products and/or services upon receiving purchase order(s) placed by them.

### **Implementation**

#### *(i) Procurement and/or provision of medical imaging film products and/or medical imaging cloud services*

- *Procurement of medical imaging film products from third-party suppliers*

If our customers specify a specific brand of medical imaging film products to be provided, we will either check our stock availability of the specific brand of medical imaging film products or procure the required brand products from third-party suppliers.

- *Provision of our self-branded medical imaging film products and/or medical imaging cloud services*

#### Self-branded medical imaging film products

To provide our self-branded medical imaging films, we will either check our stock availability or procure the customised medical imaging films, which are manufactured in accordance with our customers' specifications and requirements, from OEM manufacturers. Upon arrival of the medical imaging films, we will seal and package the medical imaging films and stick a label on the box. For our self-branded medical imaging printers, we will either (i) check our stock availability, (ii) procure them from OEM manufacturers, or (iii) assemble the self-service film output printer by using the equipment components sourced from OEM manufacturers. Subject to the stock availability, our Company may have to procure necessary raw materials including packaging materials and accessories for packaging and labelling the medical imaging films and equipment components including shell and medical image printers for assembling the self-service film output printer. We will carry out selective inspection of the procured items upon arrival to ensure that they conform with our customers' requirements.

#### Self-branded medical imaging cloud services

We are responsible for installing the software to the existing information technology systems of our customers. To connect the software and the existing information technology systems of our customers, we are also required to (i) formulate an application programme interface (API) and (ii) install a hard drive called front-end processor on-site.



## **BUSINESS**

### ***(ii) On-site installation and configuration***

For the medical imaging printers, we will carry out installation work either at our warehouse or customers' premises. For the medical imaging cloud services, the installation work we perform mainly include (i) installation and setting up of hardware, such as front-end processors, terminals and cables, and (ii) installation and configuration of software.

### **Completion and After-sales**

#### ***Product return policy, warranty and after-sales***

If we determine the quality of our medical imaging film products to be defective and such defects are not caused by our customers, we allow our customers to exchange the defective medical imaging film products for new items as part of our product return policy. We generally provide warranty to our customers in relation to the maintenance and repair of the medical imaging printers procured from us for generally a year. For the medical imaging cloud services, our Group normally provides remote technical support or conducts on-site maintenance and repair work if requested by our customers during the warranty period, which is generally one year, and also carries out upgrading work for the cloud services from time to time.

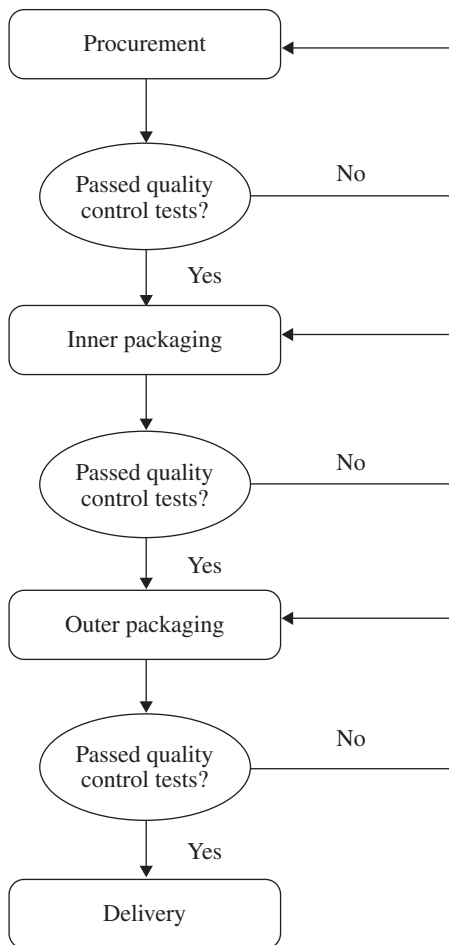
## **OUR PACKAGING AND LABELLING, AND ASSEMBLY PROCESSES**

### **Packaging and labelling of our self-branded medical imaging films**

During the Track Record Period, we manually packaged and labelled the medical imaging films procured from OEM manufacturers.

**BUSINESS**

The following diagram illustrates the key steps in our packaging and labelling process for medical imaging films:



## BUSINESS

Details of our principal packaging and labelling process are further explained below:

- *Procurement:* We procure customised medical imaging films, which are manufactured in accordance with our customers’ specifications and requirements, from OEM manufacturers and they are stored in our warehouse under precisely controlled illumination, temperature, humidity and dust levels for a prescribed period of time.
- *Inner packaging:* Each medical imaging film is sealed in a specially designed sheath in order to protect the finished product from exposure to light and other damages. The quality of the inner packaging will be subject to inspection by our quality control staff.
- *Outer packaging:* The medical imaging films will then be packaged into a box and a label will be stuck on each of the boxes. All packed products are subject to quality inspection by our quality control staff on sampling basis to ensure that they are in good condition and conform to the packaging and labelling specifications of our customers. The products are stored under prescribed conditions until delivery to customers.
- *Delivery:* We are responsible for the logistics and transportation of delivering our medical imaging films. Please refer to the paragraph headed “Logistical arrangements” in this section below. Delivery of the medical imaging films is also subject to stringently controlled conditions to avoid any damages to the medical imaging films and/or exposure to sunlight. Normally, throughout the delivery, the temperature should be controlled at or below 24°C and the humidity should be controlled between 20% to 60%.

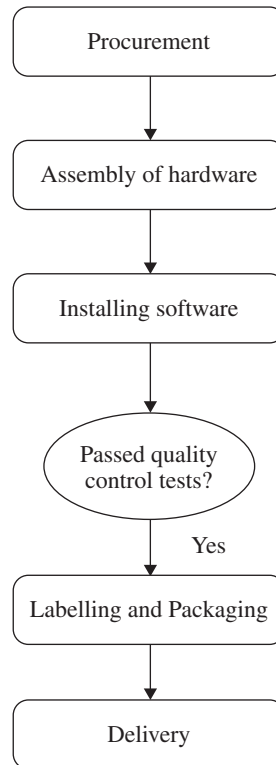
Generally, the whole packaging and labelling process for one box of medical imaging films takes around 30 minutes.

## BUSINESS

### Assembly of our self-branded self-service film output printers

During the Track Record Period, we manually assembled our self-branded self-service film output printer and the components of which are sourced from OEM manufacturers.

The following flowchart illustrates our assembly process for our self-branded self-service film output printers:



- *Procurement:* We procure equipment such as shell and medical image printer from OEM manufacturers for our assembly of self-service film output printers.
- *Assembly of hardware:* Our engineering personnel assembles the equipment procured from OEM manufacturers.
- *Installing software:* We install the operating system in the self-service film output printer.
- *Labelling and packaging:* After passing the quality control test, we label and package the self-service film output printer.
- *Delivery:* The self-service film output printer will be delivered to our customers after labelling and packaging. We are responsible for the logistic and transportation of delivering our self-service film output printer. Please refer to the paragraph headed “Logistical arrangements” in this section below for details.

## **BUSINESS**

Generally, the time required for assembling a self-branded self-service film output printer takes around five working days, subject to the specifications required by our customers.

For further details of the typical quality control procedures, please refer to the paragraph headed “Quality control and assurance” in this section.

### **LOGISTICAL ARRANGEMENTS**

The logistical arrangement with our customers is that we are responsible for the transportation of the products to our customers’ sites at our own costs. In particular, the transportation of medical imaging films requires stringent control on the delivery condition due to their sensitivity to temperature and humidity. Normally, the temperature of the vehicles should be controlled at or below 24°C and the humidity should be controlled between 20%–60% throughout the delivery. We normally arrange delivery with our in-house logistic resources. We have a logistic team and two self-owned vehicles specifically used for delivering and transporting the products from our warehouse to destinations designated by our customers. During the Track Record Period, we only engaged one logistics company to deliver our products to customers. As at the Latest Practicable Date, we have not entered into any long-term agreements with such third-party logistics company.

We are responsible for the risks associated with transportation and delivery of products, which are generally mitigated by the insurance we bought. During the Track Record Period, we did not experience any material disruption in transportation nor have we suffered any loss or paid any compensation as a result of delays in delivery or poor handling by logistics companies.

### **RAW MATERIALS AND PROCUREMENT**

For our distribution business, the major materials procured from suppliers are mainly medical imaging films and medical imaging printers. The major materials procured from suppliers for our self-branded film products business include medical imaging films, medical imaging printers, accessories, packaging materials and equipment components such as shell. For our medical imaging cloud services, we procure the software from our software suppliers. We purchased all of our raw materials in the PRC during the Track Record Period. We have dedicated procurement staff responsible for the selection of suppliers and the purchase of materials. The procurement staff possesses certain procurement experience and has adequate technical knowledge about our products, services and raw materials.

Our procurement staff devises our procurement plans on a monthly and quarterly basis, respectively, by taking into account, among others, our actual and expected sales volume, inventory level and delivery lead time. The procurement staff then makes purchases in accordance with the procurement plan. Generally, the materials will be delivered to us within one month after our procurement department places a purchase order.

## BUSINESS

### OUR SUPPLIERS

Our suppliers primarily comprise distributors of international medical imaging film products, OEM medical imaging film products manufacturers and software companies. We select our suppliers based on a number of criteria, including their reputation and qualification, product quality, scale of production, market share and financial strength. We will review and update our list of suppliers annually.

Our five largest suppliers generally grant us a credit term of 0 to 7 days. For each of the three years ended 31 December 2021 and the six months ended 30 June 2022, purchases from the five largest suppliers amounted to approximately RMB108.2 million, RMB107.6 million, RMB126.6 million and RMB49.8 million, respectively, accounted for approximately 98.0%, 98.0%, 98.9% and 98.3% of our total purchases, respectively, and purchases from the single largest supplier amounted to approximately RMB91.8 million, RMB84.5 million, RMB94.5 million and RMB37.0 million, respectively, accounted for approximately 83.1%, 77.0%, 73.8% and 73.0% of our total purchases during the same periods respectively.

The following tables set forth certain information with respect to the five largest suppliers during the Track Record Period.

**BUSINESS**

**Year ended 31 December 2019**

Rank	Five largest suppliers	Background	Type(s) of products/ services provided to our Group	Payment method	Credit period	Year of commencement of business relationship with us	Approximate purchase amount for the year ended 31 December 2019 (RMB'000)	Approximate percentage to the total purchases
1.	Honghe Group (Note 1)	A group of private limited companies based in Shandong Province with an aggregate of RMB64 million registered capital and is primarily engaged in the supply of medical imaging film products	Medical imaging film products of Medical Imaging Products Manufacturer	Bank transfer	0 day	2016	91,821	83.1
2.	Supplier B	A private limited company based in Shanghai with RMB1.05 million registered capital, which was established in the PRC in 2009 and is primarily engaged in the supply of medical imaging film products	Self-branded medical imaging film products	Bank transfer	0 day	2018	10,372	9.4
3.	Supplier C	A private limited company based in Nanjing with RMB10 million registered capital, which was established in the PRC in 2013 and is primarily engaged in the supply of medical device and the development in medical technology	Medical imaging film products of other international brand	Bank transfer	0 day	2017	3,600	3.3
4.	Supplier D	A private limited company based in Nanjing with RMB10 million registered capital, which was established in the PRC in 2008 and is primarily engaged in the supply of medical device	Self-branded self-service film output printer components	Bank transfer	0 day	2016	1,243	1.1
5.	Supplier E	A private limited company based in Shenzhen with RMB5 million registered capital, which was established in the PRC in 2014 and is primarily engaged in the supply of medical imaging products	Self-branded self-service film output printer components	Bank transfer	0 day	2019	1,189	1.1
						Five largest suppliers	108,225	98.0
						All other suppliers	2,245	2.0
						Total	110,470	100.0

**BUSINESS**

**Year ended 31 December 2020**

Rank	Five largest suppliers	Background	Type(s) of products/ services provided to our Group	Payment method	Credit period	Year of commencement of business relationship with us	Approximate purchase amount for the year ended 31 December 2020 (RMB'000)	Approximate percentage to the total purchases
1.	Honghe Group (Note 1)	A group of private limited companies based in Shandong Province with an aggregate of RMB64 million registered capital and is primarily engaged in the supply of medical imaging film products	Medical imaging film products of Medical Imaging Products Manufacturer	Bank transfer	0 day	2016	84,466	77.0
2.	Supplier B	A private limited company based in Shanghai with RMB1.05 million registered capital, which was established in the PRC in 2009 and is primarily engaged in the supply of medical imaging film products	Self-branded medical imaging film products	Bank transfer	0 day	2018	15,605	14.2
3.	Guanze Medical Equipment (Shanghai) Co., Ltd* 冠澤醫療器材(上海)有限公司 (“Guanze Medical Equipment Shanghai”) (Note 2)	A private limited company based in Shanghai with RMB20 million registered capital, which was established in the PRC in 2019 and dissolved in 2020, and is primarily engaged in the supply of medical devices	Medical imaging film products of Medical Imaging Products Manufacturer	Bank transfer	0 day	2019	3,850	3.5
4.	Supplier C	A private limited company based in Nanjing with RMB10 million registered capital, which was established in the PRC in 2013 and is primarily engaged in the supply of medical device and the development in medical technology	Medical imaging film products of other international brand	Bank transfer	0 day	2017	3,123	2.8
5.	Supplier F	A private limited company based in Shandong with RMB5 million registered capital, which was established in the PRC in 2014 and is primarily engaged in the supply of medical device	Self-branded medical imaging film products	Bank transfer	3 days	2017	542	0.5
						Five largest suppliers	107,586	98.0
						All other suppliers	2,052	2.0
						Total	109,638	100.0



**BUSINESS**

**Year ended 31 December 2021**

Rank	Five largest suppliers	Background	Type(s) of products/ services provided to our Group	Payment method	Credit period	Year of commencement of business relationship with us	Approximate purchase amount for the year ended 31 December 2021 (RMB'000)	Approximate percentage to the total purchases
1.	Honghe Group (Note 1)	A group of private limited companies based in Shandong Province with an aggregate of RMB64 million registered capital and is primarily engaged in the supply of medical imaging film products	Medical imaging film products of Medical Imaging Products Manufacturer	Bank transfer	0 day	2016	94,485	73.8
2.	Supplier B	A private limited company based in Shanghai with RMB1.05 million registered capital, which was established in the PRC in 2009 and is primarily engaged in the supply of medical imaging film products	Self-branded medical imaging film products	Bank transfer	0 day	2018	28,736	22.5
3.	Supplier G	A private limited company based in Shanghai with RMB1 million registered capital, which was established in the PRC in 2014 and is primarily engaged in the supply of medical device	Self-branded medical imaging film products	Bank transfer	0 day	2019	1,758	1.4
4.	Supplier F	A private limited company based in Shandong with RMB5 million registered capital, which was established in the PRC in 2014 and is primarily engaged in the supply of medical device	Self-branded medical imaging film products	Bank transfer	3-7 days	2017	866	0.7
5.	Supplier H	A private limited company based in Beijing with RMB25 million registered capital, which was established in the PRC in 2011 and is primarily engaged in the supply of medical imaging film products	Self-branded medical imaging film products	Bank transfer	0 day	2021	727	0.5
						Five largest suppliers	126,572	98.9
						All other suppliers	1,411	1.1
						Total	127,983	100.0

**BUSINESS**

**Six months ended 30 June 2022**

Rank	Five largest suppliers	Background	Type(s) of products/ services provided to our Group	Payment method	Credit period	Year of commencement of business relationship with us	Approximate purchase amount for the six months ended 30 June 2022 (RMB'000)	Approximate percentage to the total purchases
1.	Honghe Group ( <i>Note 1</i> )	A group of private limited companies based in Shandong Province with an aggregate of RMB64 million registered capital and is primarily engaged in the supply of medical imaging film products	Medical imaging film products of Medical Imaging Products Manufacturer	Bank transfer	0 day	2016	36,992	73.0
2.	Supplier B	A private limited company based in Shanghai with RMB1.05 million registered capital, which was established in the PRC in 2009 and is primarily engaged in the supply of medical imaging film products	Self-branded medical imaging film products	Bank transfer	0 day	2018	6,436	12.7
3.	Supplier G	A private limited company based in Shanghai with RMB1 million registered capital, which was established in the PRC in 2014 and is primarily engaged in the supply of medical device	Self-branded medical imaging film products	Bank transfer	0 day	2019	5,072	10.0
4.	Supplier I	A private limited company based in Henan with RMB10 million registered capital, which was established in the PRC in 2018 and is primarily engaged in the supply of medical device	Self-branded medical imaging film products	Bank transfer	0 day	2021	843	1.7
5.	Supplier F	A private limited company based in Shandong with RMB5 million registered capital, which was established in the PRC in 2014 and is primarily engaged in the supply of medical device	Self-branded medical imaging film products	Bank transfer	3–7 days	2017	432	0.9
							49,775	98.3
							916	1.7
							50,691	100.0

*Notes:*

- For our relationship with Honghe Group and further details of its background, please refer to the paragraph headed “Supplier — Relationship with Honghe Group” in this section.
- Guanze Medical Equipment Shanghai was ultimately controlled by Mr. Meng, the executive Director, the chairman and chief executive officer of the Company and was dissolved in August 2020.

## BUSINESS

To the best knowledge of our Directors, save as Guanze Medical Equipment Shanghai, all of our top five suppliers during the Track Record Period were Independent Third Parties. None of the Directors or any of their respective associates, or any of the Shareholders who owned more than 5% of the issued share capital of the Company during the Track Record Period and up to the Latest Practicable Date, held any interest in any of our Group’s five largest suppliers.

### **Distributorship**

During the Track Record Period, we entered into two distributorship agreements with (i) the distributor of the Medical Imaging Products Manufacturer and (ii) the distributor of another international medical imaging film products brand. For the salient terms of the framework sales agreements with the distributors of the medical imaging film products, please refer to the paragraph headed “Suppliers — Salient terms of the typical distributorship agreements with the distributors of medical imaging film products” in this section.

During the Track Record Period, the two suppliers authorised us as a Tier-2 distributor of medical imaging film products in Shandong Province but we were not the only Tier-2 distributor of the medical imaging film products procured from them. We believe we were recognised by them when we met certain benchmarks set by them including our customer base and our sales and marketing capabilities. Except for being a Tier-2 distributor of Medical Imaging Products Manufacturer and another international medical imaging film products brand in Shandong Province, our Group did not act as Tier-2 or even lower-tier distributor of any other manufacturers during the Track Record Period and up to the Latest Practicable Date.

The distribution agreement with Supplier C was terminated in 2020 primarily because (i) we shifted our resources to the development of our self-branded medical imaging products in order to strengthen our position as a medical imaging products supplier in Shandong Province; and (ii) the gross profit margin of the medical imaging films procured from Supplier C was relatively low when compared to our self-branded medical imaging films.

As at the Latest Practicable Date, we had one distributorship agreement with Tier-1 distributor of the Medical Imaging Products Manufacturer, which is Honghe Group.

### **OEM Manufacturers**

Our OEM manufacturers are specialised in the production of medical imaging film products, and are experienced in providing OEM services. We adopt a strict guideline to evaluate our OEM manufacturers in relation to its infrastructure and production capacity, licences held, financial condition, and its ability to meet the specific quality and quantity requirements for medical imaging film products. In addition, we implement stringent product quality requirements on the OEM manufacturers to ensure that the selected OEM manufacturers are able to meet the quality requirements as set out by us. During the Track Record Period, we did not encounter any disruption to our business operation due to material non-compliance, counterparty default or business interruption by the OEM manufacturers. During the Track Record Period, we had 4, 6, 8 and 7 OEM manufacturers, respectively. We do not rely on any single OEM manufacturer as there is a large number of OEM manufacturers for medical imaging film products with similar quality and price available in the market.

## BUSINESS

During the Track Record Period, our OEM expenses incurred were approximately RMB6.7 million, RMB14.1 million, RMB33.1 million and RMB13.3 million. Our Directors believe that by utilising OEM manufacturers for production offers us the opportunity to focus resources on key stages of business, such as product development and sales and distribution.

### **Rebate arrangements with Honghe Group, Supplier B and Supplier G**

During the Track Record Period, Honghe Group, Supplier B and Supplier G provided rebate to us if we met purchase targets specified in the respective agreements.

In general, if we fulfil the yearly minimum purchase target, rebates will be provided on an annual basis in the form of (i) self-service film output printer and (ii) a discount of medical imaging films, which can be used for future purchases.

During the Track Record Period, the total amount of rebates received by us in both forms were approximately RMB2.2 million, RMB6.4 million, RMB7.2 million and RMB4.7 million, respectively.

The rebate in the form of self-service film output printer is recorded in property, plant and equipment in the balance sheet and the depreciation of self-service film output printer will be recorded in cost of goods sold in the income statement. The rebate in the form of discounts of medical imaging films for future purchases is recorded in inventories in the balance sheet when the medical imaging films are bought at a discount and if the medical imaging films are sold, it will be recorded in cost of goods sold in the income statement.

## BUSINESS

### **Salient terms of the typical distributorship agreements with the distributors of medical imaging film products**

For our distribution business, during the Track Record Period, we entered into framework distributorship agreements with the distributors of medical imaging film products. We entered into a ten-year framework agreement with Honghe Group in February 2021, which shall be subject to the commercial terms to be further agreed by both parties annually. For further details, please refer to the paragraph headed “Business — Relationship with Honghe Group”. The following sets forth the salient terms of the framework distributorship agreements:

Duration	:	Typically for a term of one year.
Exclusivity	:	We are only authorised to distribute medical imaging film products in Shandong Province.
Minimum purchase targets	:	We are required to meet minimum yearly targets as specified in the agreement. If our Group is unable to meet such purchase targets, the distributors are entitled to terminate the distributorship with us. Our Directors confirmed that during the Track Record Period, we have fulfilled the minimum purchase targets.
Sales and pricing	:	No restrictions on distribution prices are specified in the agreements.
Payment and credit terms	:	Payment terms are not specified. In general, payments shall be made upon placing a purchase order or delivery.
Delivery, shipping and other costs	:	We are responsible for the costs of shipping.
Rebate	:	We receive rebates if the minimum purchase targets are met, which is in the form of (i) self-service film output printer and/or (ii) a discount of medical imaging films for future purchases.

## BUSINESS

### Salient terms of the typical production and purchase agreements with OEM manufacturers

For our self-branded products business, during the Track Record Period, we entered into production and purchase agreements with OEM manufacturers. The following sets forth the salient terms of the production and purchase agreements:

- |                          |   |  |
|--------------------------|---|--|
| Duration                 | : | The production and purchase agreement does not have a specified duration.  |
| Renewal                  | : | The production and purchase agreement is not automatically renewed.  |
| Services to be rendered  | : | The OEM manufacturers shall manufacture the semi-finished products or finished products in accordance with our standards and specifications; and in accordance with the terms and conditions of the production and purchase agreement. |
| Payment and credit terms | : | Payment shall be arranged by deposit, followed by payment of the remaining balance prior to delivery or payment shall be arranged within 2–3 working days upon execution of the agreement or upon delivery.                            |
| Rebate                   | : | We receive rebates if the minimum purchase targets are met, which is generally in the form of (i) a discount on the upcoming purchase of medical imaging films or (ii) self-service film output printer.                               |

To the best knowledge of our Directors, during the Track Record Period, we had not experienced nor were we aware of any material disputes or disagreements between our Group and our major suppliers, and our Group was not a party to any legal or arbitration proceedings with any of our major suppliers. Our Directors also confirm that there was no incident of material breach of any supply contract with our suppliers as at the Latest Practicable Date.

### Relationship with Honghe Group

During the Track Record Period, we mainly procured medical dry laser films and self-service film output printers from Honghe Group. For each of the three years ended 31 December 2021 and the six months ended 30 June 2022, our purchase from Honghe Group amounted to approximately RMB91.8 million, RMB84.5 million, RMB94.5 million, and RMB37.0 million, respectively, representing approximately 83.1%, 77.0%, 73.8% and 73.0% of our Group’s total purchases for the relevant year/period, respectively. For the risks relating to our supplier concentration, please refer to the section headed “Risk factors — Risks relating to our business and operations — Our largest supplier accounted for over 70% of our total purchases throughout the Track Record Period. If our relationship with it deteriorates or terminates, our business and results of operations would be adversely affected” in this document.

## BUSINESS

### ***Background of Honghe Group***

Our relationship with Honghe Group dated back to 2017. During the Track Record Period and as at the Latest Practicable Date, Honghe Group is the only Tier-1 distributor of the Medical Imaging Products Manufacturer in Shandong Province and according to CIC, Honghe Group accounted for approximately 40% to 50% of the tier-1 distributor medical imaging film products market in Shandong Province in 2021. According to CIC, the Medical Imaging Products Manufacturer is one of the major medical imaging film products brands in the PRC, ranking the first in terms of sales revenue in the PRC and Shandong Province with a market share of approximately 28.0% and 55.0%, respectively, in 2021. As confirmed by the Medical Imaging Products Manufacturer, it accepts one or more Tier-1 distributors in Shangdong Province (i.e. Honghe Group is not the exclusive Tier-1 distributor of the Medical Imaging Products Manufacturer in Shandong Province) but forbids the Tier-1 distributors to perform cross-regional sales and distribution.

As at the Latest Practicable Date, as confirmed by Honghe Group, its customers consists of mostly Tier-2 distributors in Shandong Province and some hospitals and healthcare institutions.

### ***Contractual arrangement with Honghe Group***

During the Track Record Period, we entered into framework agreements with Honghe Group for a term of one year. According to CIC, due to the change of market conditions and variation of sales projection every year, it is an industry norm for medical imaging films manufacturer to renew the terms of distributorship agreement with their Tier-1 distributor every year and to set a new minimum purchase targets and pricing terms every year. Likewise, it is also an industry norm for Tier-1 distributor to enter into a distributorship agreement with Tier-2 distributorship every year in order to renew the minimum purchase targets and pricing terms. As such, the principal rationale of having a one-year term distributorship agreement is to facilitate the negotiation of terms and development of business in response to latest market trend but not to facilitate the termination of cooperation with Tier-1 and/or Tier-2 distributors. To secure the relationship with Honghe Group and to maintain the sustainability of our business, we entered into a framework agreement with Honghe Group in February 2021 for a term of ten years. The enforceability of such an agreement is subject to the commercial terms to be further agreed by both parties annually. Since the framework agreement only stipulated the general commercial terms, both parties to the framework agreement agreed that the annual purchase targets, the selling price for each sub-type of the medical dry laser films and the arrangement of rebate shall be subject to the supplemental agreement signed by both parties every year during the ten-year period. Our PRC Legal Advisers are of the view that both the framework agreement and the supplemental agreements which have already been signed are valid and legally binding. For further details, please refer to the paragraph headed “Business — Relationship with Honghe Group — Sustainability of our business in view of concentration — Ten-year framework agreement entered into with Honghe Group”. The followings set forth the salient terms of the framework agreements with Honghe Group:

Exclusivity:	We are only authorised to distribute medical imaging film products in Shandong Province.
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**BUSINESS**

Minimum purchase targets: We are required to meet minimum target as specified in the agreement. Our Directors confirmed that during the Track Record Period, we have fulfilled the minimum purchase targets. Below are the details of the expected yearly minimum purchase target required by Honghe Group and the actual purchase volume of our Group during the Track Record Period:

Year	Expected yearly purchase target of 14” x 17” medical dry laser films (Box)	Actual yearly purchase target of 14” x 17” medical dry laser films (Box)
<b>2019</b>	66,000	66,295
<b>2020</b>	58,800	58,820
<b>2021</b>	58,800	68,353

Sales and pricing: No restrictions on distribution prices are specified in the agreement.

Payment and credit terms: Payment terms are not specified. In general, payments shall be made upon placing a purchase order or delivery.

Delivery, shipping and other costs: We are responsible for the costs of shipping.

Rebate: We receive rebates if the minimum purchase targets are met, which is in the form of (i) self-service film output printer of the Medical Imaging Products Manufacturer and/or (ii) a discount of medical imaging films for future purchases.

Termination: Not available

Our Directors confirmed that we have not encountered any material adverse change in the terms of our Group’s distribution agreements with Honghe Group since cooperation.

***Reasons for concentration***

Our Directors are of the view that the concentration is mainly due to the following:

- According to CIC, the medical imaging film products market is highly concentrated in the PRC. The top five manufacturers accounted for more than 60% of the market share in China in terms of sales revenue in 2021. It is an industry norm for companies like us to rely heavily on a few suppliers due to the dominance by a few players in the medical imaging film products industry in the PRC.



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- According to CIC, as at the Latest Practicable Date, Honghe Group was the only Tier-1 distributor of the Medical Imaging Products Manufacturer in Shandong Province, and our Group can only procure the medical dry laser film of the Medical Imaging Products Manufacturer from Honghe Group for onward selling to customers, because the Medical Imaging Products Manufacturer designates Tier-1 distributor on a regional basis and forbids cross-regional sales and distribution.
- We have established business relationship with Honghe Group since 2017 and have not encountered any major procurement problems in terms of shortage, delay and pricing.

### *Sustainability of our business in view of our concentration*

Our Directors are of the view that the following factors should contribute to the sustainability of our business despite our concentration of purchases from Honghe Group:

- *Measures to mitigate concentration risk*

Notwithstanding we endeavour to maintain the established relationship with Honghe Group, our Directors recognise the importance of expanding our product portfolio and establishing our own brands to maintain a sustainable business model. We commenced the sale of our self-branded medical dry laser film in June 2021 with an aim to mitigate concentration risk and increase our profitability. Our self-branded medical dry laser films were manufactured by OEM manufacturers, and further packaged and labelled by us. Our Directors believe that we can attract potential customers to procure our self-branded medical dry laser film by offering them a more competitive price. It is our plan to further develop our self-branded products in the future, not only to reduce our reliance on Honghe Group and but also to strengthen our position in the market and the supply chain. During the Track Record Period, our revenue attributable to the medical imaging film products under our brand were approximately RMB11.3 million, RMB32.2 million, RMB54.8 million and RMB29.3 million, respectively, representing approximately 9%, 19%, 28% and 32% of our revenue under the medical imaging film products business segment, respectively, which exhibited an increasing trend.

In addition, we plan to source medical dry laser film from alternative suppliers. For further details, please refer to “Business — Sustainability of our business in view of our concentration — Our flexibility and plans to source from alternative suppliers”.

## BUSINESS

- *Mutual reliance between our Group and Honghe Group*

We have established business relationship with Honghe Group since 2017 and have not encountered any major procurement problems. By virtue of our Group’s extensive sales and marketing experiences in medical imaging film products industry and established market position in Shandong Province, our Directors consider that the reliance between Honghe Group and our Group was mutual as our customers were sourced independently without the assistance of Honghe Group and Honghe Group relied on our extensive distribution network for its sale of the Medical Imaging Products Manufacturer’s medical dry laser film in Shandong Province during the Track Record Period. Over years of operations, we have accumulated a solid customer base and our customers covered, 43 Grade III hospitals, 30 Grade II hospitals and 20 Grade I hospitals in Shandong Province, accounting for approximately 20.7% Grade III hospitals, 4.1% Grade II hospitals and 1.9% Grade I hospitals in Shandong Province, as at the Latest Practicable Date. During the Track Record Period, as confirmed by Honghe Group, our purchase from Honghe Group accounted for approximately 50% of our Honghe Group’s total sales revenue and we ranked the first among the customers of Honghe Group in terms of its sales revenue. Also, our successful record of the sale of medical dry laser film has strengthened our cooperation and enabled us to become an important business partner of Honghe Group. Our Directors believe that we have considerable advantages in the medical imaging film products market as we can leverage on our experienced staff, sales network in Shandong Province, our extensive sales and marketing experience, our reputation in distributing medical imaging film products in Shandong Province, and our successful business strategies which helped Honghe Group to maintain its leading position in terms of sale of the Medical Imaging Products Manufacturer’s products in Shandong Province. As such, our Directors believe that we are a valuable business partner to Honghe Group and such business relationship between our Group and Honghe Group is expected to remain stable in the future.

- *Ten-year framework agreement entered into with Honghe Group*

We have entered into a framework agreement with Honghe Group in February 2021 with a term of ten years. Under the framework agreement, Honghe Group shall guarantee the long-term supplies of the products of the Medical Imaging Products Manufacturer to us, and we shall complete the minimum purchase targets agreed by both parties. The enforceability of such an agreement is subject to the minimum purchase targets, price, rebate and other specific terms to be further agreed by both parties annually. We will submit the estimated sales plan to Honghe Group three months in advance, and Honghe Group shall complete inventory and stocking work three months in advance in accordance with our sales plan.

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Despite the Honghe Group's distribution agreement with the Medical Imaging Products Manufacturer will have to renew once a year, our Directors are of the view that Honghe Group will continue to be able to act as Tier-1 distributor of Medical Imaging Products Manufacturer due to the following factors and that we will be able to secure the supply from Honghe Group:

- (i) *long-term business relationship between Medical Imaging Products Manufacturer and Honghe Group.* According to Honghe Group, it has all along been the Tier-1 distributor of the Medical Imaging Products Manufacturer for 23 years.
- (ii) *mutual reliance between Medical Imaging Products Manufacturer and Honghe Group.* As confirmed by Honghe Group, it is the only Tier-1 distributor of Medical Imaging Products Manufacturer in Shandong Province as at the Latest Practicable Date.
- (iii) *fulfilment of the minimum purchase targets.* As confirmed by Honghe Group, it met the required minimum purchase target throughout their cooperation.

In light of the above, the Sole Sponsor concurs with the view of our Directors.

- *Our flexibility and plans to source from alternative suppliers*

We maintain flexibility in supplier selection for other medical dry laser film of similar features and specifications. Our Directors confirm that there are alternative suppliers in the market which can supply medical dry laser film at comparable terms and quantities. Given our established presence in the medical imaging market, our Directors believe that there should not be any practical difficulty in purchasing from these alternative suppliers at comparable prices. Generally, our customers would choose their preferred brand of medical dry laser films, having regard to, among others, the quality of the products such as pixel and resolution, delivery time and pricing.

As confirmed by Honghe Group and our Directors, there was no non-competition provision under the distributorship agreements entered into between the Group and Honghe Group. As confirmed by the Medical Imaging Products Manufacturer, there was no non-competition provision under the distributorship agreements between Honghe Group and the Medical Imaging Products Manufacturer.

Our Directors recognise the importance of expanding our supplier base and we will continue to improve our supplier network and foster relationship with potential new suppliers that match our development plan from time to time.

Considering (i) the commencement of the sale of our self-branded medical dry laser film; (ii) the mutual reliance between our Group and Honghe Group; (iii) the framework agreement in relation to the supply of medical dry laser film with Honghe Group; and (iv) our flexibility and plans to source from alternative supplier, our Directors consider that the risk of Honghe Group to cease to provide medical dry laser film to the Group is remote in the foreseeable future and therefore, the Group's reliance on Honghe Group would not affect our Group's business sustainability.

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Our Directors are of the view that our relationship with Honghe Group is not likely to be terminated or otherwise materially adversely change in the foreseeable future due to the following factors: (i) our stable business relationship with Honghe Group; (ii) mutual reliance between our Group and Honghe Group; and (iii) the fulfilment of the minimum purchase targets throughout our cooperation. Based on the above, the Sole Sponsor is also of the view that there are no red flags indicating (i) our relationship with Honghe Group is likely to be terminated or (ii) any materially adversely change of our relationship with Honghe Group in the foreseeable future.

### *Our self-branded products*

Since June 2021, our Group has offered its own self-branded medical dry laser films. To the best knowledge of our Directors, Honghe Group has all along been informed of our Group's development of self-branded medical imaging film products including the commencement of sale of our self-branded medical dry laser film. In addition, there was no non-competition clause in the framework distributorship agreements entered into between our Group and Honghe Group during the Track Record Period.

Network of a distributor is one of the essential factors that the medical imaging products manufacturers/distributor may take into account when selecting a suitable distributor/sub-distributor. Given (i) our Group's extensive hospital network in Shandong Province and (ii) the solid business relationship between the end customers and our Group, our Directors believe that Medical Imaging Products Manufacturer and Honghe Group are inclined to cooperate with our Group in order to offer their products to the hospitals and healthcare institutions in Shandong Province. In light of the above, the relationship between our Group and Honghe Group is mutual and complementary and we have maintained an amicable and solid business relationship since our first year of cooperation.

Despite the medical dry laser film and self-service film output printer of Medical Imaging Products Manufacturer and Guanze Huiyi share similar characteristics, nature and functionalities, our Directors believe that the international brand name of Medical Imaging Products Manufacturer may distinguish the target customers as some of the hospital and/or healthcare institutions may prefer to purchase international brand products on the one hand, while on the other hand, the lower selling price of our self-branded medical dry laser film may attract customers who are cost-conscious.

Further, our Directors consider that the offer of the products of Medical Imaging Products Manufacturer, our self-branded products are complementary but may not necessarily compete with each other within our Group because of our diverse product portfolio, which offers a wider product offerings and may appeal to a large customer base. Such a business model may in turn enhance our Group's competitiveness and the business development of our Group.

As confirmed by the Medical Imaging Products Manufacturer, it is well aware of our Group's development of self-branded medical imaging products and it will not impose any non-competition clause on us in the event we become its Tier-1 distributor.

## BUSINESS

### INVENTORY MANAGEMENT

Our inventories primarily include (i) raw materials, such as accessories, packaging materials and shell of the self-service film output printer; and (ii) finished goods, such as medical imaging films. We own one warehouse in Jinan, Shandong Province to store our inventories. Due to the sensitive nature of the medical imaging films, they are being stored under the temperature of 24°C or below and the humidity between 20% and 60%.

We maintain our inventories of finished goods and procure raw materials according to the projected demand from our customers and the estimated packaging and labelling and assembly time. We also communicate with our customers on a regular basis to understand their expected demand. We typically maintain an inventory level of our finished goods of one to three months to meet the unexpected demand of our customers.

### SALES, CUSTOMERS AND MARKETING

During the Track Record Period, all of our revenue was derived from our sales in Shandong Province. Our products are directly or ultimately provided to hospitals and healthcare institutions. Over years of operations, we have successfully established an extensive hospital coverage that covered 43 Grade III hospitals, 30 Grade II hospitals and 20 Grade I hospitals in Shandong Province, accounting for approximately 20.7% Grade III hospitals, 4.1% Grade II hospitals and 1.9% Grade I hospitals in Shandong Province, since the date of our inception until the Latest Practicable Date. As at the Latest Practicable Date, according to CIC, there are 208, 734 and 1,061 Grade III, Grade II and Grade I hospitals in Shandong Province, respectively.

As at 31 December 2019, 2020 and 2021, 30 June 2022 and as at the Latest Practicable Date, we had 61, 63, 62, 57, 61 hospitals and/or healthcare institutions customers, respectively. The table below sets out the movement in the number of our hospitals and/or healthcare institutions for the years/period indicated:

Number of hospitals and for healthcare institutions	As at 31 December			As	As at
	2019	2020	2021	30 June 2022	the Latest Practicable Date
Hospitals and/or healthcare institutions at the beginning of the year/period <i>(Note 1)</i>	60	61	63	62	57
Additions of hospitals and/or healthcare institutions <i>(Note 2)</i>	4	12	5	1	5
Reductions of hospitals and/or healthcare institutions <i>(Note 3)</i>	3	10	5	6	1
Hospitals and/or healthcare institutions at the end of the year/period	61	63	62 <i>(Note 4)</i>	57	61

*Notes:*

- (1) The number of hospitals and/or healthcare institutions at the beginning of the year/period represents those hospitals and/or healthcare institutions who had transaction(s) with us in the previous year/period.
- (2) The additions of hospitals and/or healthcare institutions represents those hospitals and/or healthcare institutions who had no transaction with us in the previous year/period but transacted with us in the present year/period.

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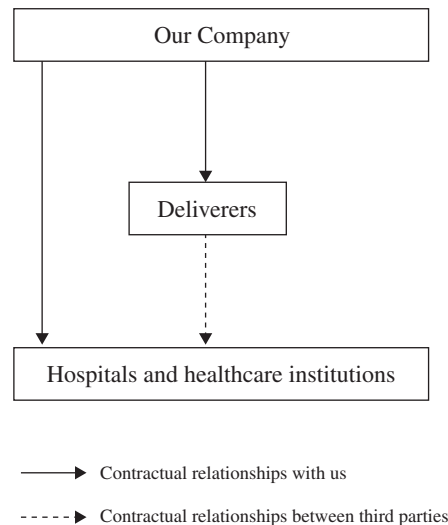
- (3) The reductions of hospitals and/or healthcare institutions represents those hospitals and/or healthcare institutions who had transaction(s) with us in the previous year/period but did not transact with us in the present year/period.
- (4) One of the hospitals merged with Shandong Hospital in 2021 and accordingly they are counted as one hospital.

We obtain sales of medical imaging film products and cloud services through (i) tender, which includes open tender and tender by invitation; and (ii) quotation. For further details of tender and quotation, please refer to the paragraph headed “Our Business Workflow — Pre-sale” in this section.

### Our sales channel

During the Track Record Period, our products and services were ultimately provided to hospitals and healthcare institutions either directly or through deliverers.

The diagram below sets forth our sales model:



### *Sales to hospitals and healthcare institutions*

Our Directors are of the view that selling to hospitals and healthcare institutions allows us to establish and maintain direct contact with certain key hospital customers and medical practitioners and keeps us close to the frontline of medical practise and the application of our products. In turn, this enables us to collect feedback from medical practitioners, which helps us design new and upgraded products, and form new strategies to adjust to market demands.

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### *Sales through deliverers*

In recent years, increasing hospitals and healthcare institutions in the PRC have adopted the supply, processing and distribution (SPD) model, pursuant to which certain procurement steps are outsourced to deliverers (配送商) in an attempt to reduce the workload of the procurement department of the hospitals and healthcare institutions and increase the efficiency of procurement. According to CIC, it is common for medical imaging film products manufacturers or distributors to supply their products to hospitals and healthcare institutions through deliverers. The deliverers are usually state-owned companies or private companies in the PRC which principally engage in the distribution of medical devices and pharmaceutical products with wide logistic network in China. Owing to the increase of the adoption of SPD model by the hospitals and healthcare institutions in the PRC, some of our hospital and healthcare institutions customers will procure our medical imaging film products through the deliverers. As a result, some hospitals and healthcare institutions customers may require us to enter into agreements with their selected deliverers instead of signing sales agreements with them directly. For the avoidance of doubt, the deliverers are chosen by our hospitals and healthcare institutions and our Group did not play any role during the course of the selection of the deliverers.

The services provided by the deliverers generally include, among other things, (i) liaising with the hospitals and healthcare institutions to arrange the schedule of the delivery of our products to the hospitals and healthcare institutions; (ii) monitoring the quality of our products; and (iii) arranging the collection of account receivables from the hospitals and healthcare institutions.

Due to the nature of medical imaging films, which is sensitive to humidity and temperature, in some cases, deliverers will require us to deliver medical imaging films directly to hospitals and healthcare institutions.

Our relationship with deliverers is regarded as a principal-agent relationship. We are regarded as a principal during the course of the sale of our medical imaging films to hospital through deliverers, taking into consideration that (i) we are primarily responsible for the provision of goods and after-sales services in general and (ii) we have the right to decide the selling prices of our goods to hospital while the deliverers have no pricing power in this regard. Accordingly, under HKFRS 15, the relevant transactions through our deliverers are accounted for as sales to hospitals and healthcare institutions rather sales to deliverers.

Generally, the sales agreement entered into between our Group and the deliverers includes (i) a fixed unit price for each type of products, which is the unit price we offered to the deliverers, and (ii) a marked-up fixed unit price for each type of products, which is the unit price that we offered to end customers. For details of the salient terms of the sales agreements entered into with deliverers, please refer to “Business — Sales, Customers and Marketing — Principal terms of the framework sales agreements”. The services provided by our deliverers as described above will be accounted as the channel fees incurred by our Group, which represents the difference between our sales to hospitals through deliverers (i.e. the selling price of our medical imaging films to hospitals x the sales volume) and sales to deliverers (i.e. the selling price of our medical imaging films to deliverers x the sales volume). During the Track Record Period, the channel fees we incurred amounted to approximately RMB7.6 million, RMB14.4 million, RMB22.0 million and RMB10.7 million for each of the three years ended 31 December 2021 and the six months ended 30 June 2022, respectively.

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On some occasions, a higher proportion of channel fees to their revenue contribution to our Group was incurred for our self-branded products because our brand is relatively new as compared to the other international brands. Despite the fact that the hospitals and healthcare institutions is the one who chooses the particular brand of the product to be provided to them, when compared with the case of other international brands, the deliverers consider that they may be exposed to more risks in relation to coordination and liaison with relevant parties, for example, if (i) we are not able to deliver our products in time or (ii) if there is any quality issue or after-sales services issue in relation to our products. Moreover, our Directors believe, and CIC concurs that deliverers, in particular those who are state-owned or large-scale companies, are concerned about the quality of medical products provided by suppliers like us as their reputations are at stake pursuant to the fact that hospitals have the discretion to choose deliverers. In view of this, in the course of dealing with us, the deliverers may have to devote more resources and/or incur more costs for coordinating and liaising with relevant parties, in order to make sure (i) our punctual delivery; (ii) an early collection of account receivables from hospitals and healthcare institutions to maintain the liquidity for the production of our self-branded medical imaging films; and (iii) the quality of our product fulfils the standard as specified by the hospitals and healthcare institutions.

The following table sets forth the breakdown of our revenue by sales channel for the years indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2019		2020		2021		2021		2022	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Sales to hospitals and healthcare institutions	93,620	66.5	113,166	61.4	105,507	50.0	59,095	55.4	39,689	40.2
Sales through deliverers	47,030	33.4	70,839	38.4	105,490	50.0	47,300	44.3	58,903	59.7
Other <sup>(Note 1)</sup>	175	0.1	430	0.2	79	0.0 <sup>(Note 2)</sup>	333	0.3	28	0.0 <sup>(Note 2)</sup>
<b>Total</b>	<b>140,825</b>	<b>100</b>	<b>184,435</b>	<b>100</b>	<b>211,076</b>	<b>100</b>	<b>106,728</b>	<b>100</b>	<b>98,621</b>	<b>100</b>

Notes:

- (1) Others represented our sales to, among others, medical equipment manufacturers and medial films trading companies.
- (2) Represented less than 0.1%.

During the Track Record Period and as at the Latest Practicable Date, the number of deliverers were 25, 31, 37, 33 and 33, respectively.

For details of the salient terms of framework sales agreement entered into with the deliverers, please refer to the paragraph headed “Principal Terms of the Framework Sales Agreements” in this section.



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### Our Deliverers

Our Group’s revenue attributable to the five largest deliverers during the Track Record Period amounted to approximately RMB27.7 million, RMB38.9 million, RMB60.0 million and RMB36.9 million, respectively, representing approximately 19.7%, 21.1%, 28.4% and 37.4% of our total revenue for the respective years/periods. Our Group’s revenue attributable to the largest deliverer during the Track Record Period amounted to approximately RMB7.4 million, RMB11.2 million, RMB21.6 million and RMB15.5 million, respectively, representing approximately 5.3%, 6.1%, 10.2% and 15.7% of our total revenue for the respective years/periods.

#### Year ended 31 December 2019

Rank	Top five deliverers	Background	Revenue contribution to our Group (RMB'000)	Approximate percentage to the deliverers’ revenue to our Group	Approximate percentage to the total revenue
1	Deliverer A	A state-owned enterprise based in Shanghai with more than RMB3.1 billion registered capital, which was established in the PRC in 2003 and is primarily engaged in wholesaling of medicine; and sales of health supplements	7,411	15.8	5.3
2	Deliverer B	A state-owned enterprise based in Shandong Province with RMB42.45 million registered capital, which was established in the PRC in 2003 and is primarily engaged in wholesaling of medical devices and in vitro diagnostic reagent	7,030	14.9	5.0
3	Deliverer C	A company authorised and managed by the National Health Commission based in Shandong Province with RMB7 million registered capital, which was established in the PRC in 2014 and is primarily engaged in elderly care and buildings cleaning services	5,977	12.7	4.2
4	Deliverer D	A private company based in Shandong Province with RMB20 million registered capital, which was established in the PRC in 2011 and is primarily engaged in sales of Class I and Class II medical devices; development of software; leasing of medical devices; and marketing businesses	4,302	9.1	3.1
5	Deliverer E	A private company based in Shandong Province with RMB5 million registered capital, which was established in the PRC in 2011 and is primarily engaged in technical solutions and leasing of medical devices; wholesaling and sales of office equipment and computer software and hardware; and export and import businesses	2,994	6.4	2.1
Five largest deliverers			27,714	58.9	19.7
All other deliverers			19,316	41.1	13.7
Total revenue by sales through deliverers			47,030	100	33.4

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**Year ended 31 December 2020**

<b>Rank</b>	<b>Top five deliverers</b>	<b>Background</b>	<b>Revenue contribution to our Group (RMB'000)</b>	<b>Approximate percentage to the deliverers' revenue contribution to our Group</b>	<b>Approximate percentage to the total revenue</b>
1	Deliverer A	A state-owned enterprise based in Shanghai with more than RMB3.1 billion registered capital, which was established in the PRC in 2003 and is primarily engaged in wholesaling of medicine; and sales of health supplements	11,171	15.8	6.1
2	Deliverer C	A company authorised and managed by the National Health Commission based in Shandong Province with RMB7 million registered capital, which was established in the PRC in 2014 and is primarily engaged in elderly care and buildings cleaning services	9,089	12.8	4.9
3	Deliverer E	A private company based in Shandong Province with RMB5 million registered capital, which was established in the PRC in 2011 and is primarily engaged in technical solutions and leasing of medical devices; wholesaling and sales of office equipment and computer software and hardware; and export and import businesses	8,401	11.9	4.6
4	Deliverer D	A private company based in Shandong Province with RMB20 million registered capital, which was established in the PRC in 2011 and is primarily engaged in sales of Class I and Class II medical devices; development of software; leasing of medical devices; and marketing businesses	5,627	7.9	3.1
5	Deliverer F	A private company based in Shandong Province with RMB2 million registered capital, which was established in the PRC in 2008 and is primarily engaged in sales, maintaining, installing and technical solutions of medical devices; and wholesaling and sales of office equipment, constructions material, machinery and electronic devices	4,658	6.6	2.5
		Five largest deliverers	38,946	55.0	21.1
		All other deliverers	31,893	45.0	17.3
		Total revenue by sales through deliverers	70,839	100	38.4



## BUSINESS

### Six months ended 30 June 2022

Rank	Top five deliverers	Background	Revenue contribution to our Group (RMB'000)	Approximate percentage to the deliverers' revenue contribution to our Group	Approximate percentage to the total revenue
1	Deliverer A	A state-owned enterprise based in Shanghai with more than RMB3.1 billion registered capital, which was established in the PRC in 2003 and is primarily engaged in wholesaling of medicine; and sales of health supplements	15,474	26.3	15.7
2	Deliverer E	A private company based in Shandong Province with RMB5 million registered capital, which was established in the PRC in 2011 and is primarily engaged in technical solutions and leasing of medical devices; wholesaling and sales of office equipment and computer software and hardware; and export and import businesses	7,452	12.7	7.6
3	Deliverer F	A private company based in Shandong Province with RMB2 million registered capital, which was established in the PRC in 2008 and is primarily engaged in sales, maintaining, installing and technical solutions of medical devices; and wholesaling and sales of office equipment, constructions material, machinery and electronic devices	5,660	9.6	5.7
4	Deliverer C	A company authorised and managed by the National Health Commission based in Shandong Province with RMB7 million registered capital, which was established in the PRC in 2014 and is primarily engaged in elderly care and buildings cleaning services	5,477	9.3	5.5
5	Deliverer G	A private company based in Shandong Province with RMB10 million registered capital, which was established in the PRC in 2017 and is primarily engaged in wholesaling and sales of medical devices, computers and computer consumables, and construction equipment	2,821	4.8	2.9
		Five largest deliverers	36,884	62.6	37.4
		All other deliverers	22,019	37.4	22.3
		Total revenue by sales through deliverers	58,903	100	59.7

### Principal Terms of the Framework Sales Agreements

During the Track Record Period, we generally entered into framework sales agreements with our hospitals and healthcare institutions customers and deliverers. Pursuant to the respective framework sales agreements, we will provide products and/or services upon receiving orders placed by the hospitals, healthcare institutions and deliverers, which specify the type and quantity of the product or scope of services, as well as the timing of delivery.

## BUSINESS

### *Provision of medical imaging film products and medical imaging cloud services*

The table below sets out a summary of the salient terms of the sales agreements typically entered into with hospitals and healthcare institutions:

Duration	: Typically one year to two years.
Scope of work	: The technical specifications and requirements of the medical imaging films are specified by customers. Generally, provision of (i) medical imaging cloud services and (ii) medical imaging printers maintenance services (if the medical imaging printers are provided by us) will be specified in the framework agreement.
Pricing	: Generally a fixed unit price for each type of medical imaging films is specified.
Payment and credit terms	: Our customers are generally required to settle the payment in full within a specified period upon delivery and issuance of invoice.
Products return/replacement	: If we determine the quality of our medical imaging films to be defective and such defects are not caused by our customers, we allow customers to exchange the defective medical imaging films for new items at our own costs as part of our product return policy.
Liability	: Party which fails to perform relative contractual responsibilities will be in default and shall be liable for breach of terms, including payment of liquidated damages.
Termination and renewal	: Agreements would be terminated by one party if the other party breaches the terms and conditions of the relevant agreements. Generally, no renewal clause is specified in the agreements.

## BUSINESS

The table below sets forth a summary of the salient terms of the sales agreements typically entered into with deliverers:

Duration	: Typically one year to two years.
Scope of work	: The technical specifications and requirements of the products specified by deliverers/the ultimate customers. Generally, (i) medical imaging cloud services and (ii) medical imaging printer maintenance services (if the medical imaging printers are provided by us) provided by us to the hospitals will be specified in the framework agreement.
Pricing	: Generally a fixed unit price for each type of products, which is the unit price that we offer to deliverers, is specified and a marked-up fixed unit price for each type of products, which is the unit price that we offer to end customers, will also be specified.
End customers	: The identity of the end customers are specified.
Delivery	: Generally, we are responsible for the delivery of the products and services to end customers.
Payment and credit terms	: Deliverers are generally required to settle the payment in full within a specified period upon receiving settlement from hospitals and healthcare institutions or a specified period upon delivery to the hospitals and healthcare institutions and issue of invoice.
Products return/replacement	: If we determine the quality of our medical imaging films to be defective, we allow deliverers to exchange the defective medical imaging films for new items at our own costs as part of our product return policy.
Liability	: Party which fails to perform relative contractual responsibilities will be in default and shall be liable for breach of terms, including payment of liquidated damages.
Termination and renewal	: Agreements would be terminated by one party if the other party breaches the terms and conditions of the relevant agreements. Some agreements are renewed upon expiration and parties' agreement.

## BUSINESS

During the Track Record Period, our sales return amounted to nil, approximately RMB285,750, RMB132,000 and RMB603,000, respectively, representing nil, approximately 0.15%, 0.06% and 0.6% of our total revenue for the corresponding years. Our Directors confirm that, as at the Latest Practicable Date, there was no material breach of sales agreement with our customers, and we had no record of any return of products due to quality defects. We also have not received any product liability claims or complaints from customers with regard to the quality of products which had materially or adversely affected our business during the Track Record Period.

### **Our Customers**

During the Track Record Period, our customers included hospitals and healthcare institutions in Shandong Province. We make certain assessments before committing ourselves to the transactions with new customers, including their reputation and payment ability. After the initial sales, our sales and marketing department also conducts ongoing assessment on our customers in this regard on a regular basis.

We normally grant a credit period of 90 to 365 days to our customers. For some customers that we provided a credit period up to 365 days, we take into account the following factors: (i) customer’s normal payment practise and payment history, (ii) our amiable relationship with customers; (iii) relatively low risk of default due to their nature as a public institution; and (iv) the internal procedures they have to go through for processing payment as a public institutions. For our five largest customers, we generally grant them a credit term of 90 to 300 days. Our customers usually settle their payments through bank transfer and bank acceptance bills. For each of the three years ended 31 December 2021 and the six months ended 30 June 2022, our revenue generated from our five largest customers amounted to approximately RMB62.7 million, RMB79.5 million, RMB86.4 million and RMB42.7 million, respectively, representing approximately 44.5%, 43.2%, 41.0% and 43.3% of our total revenue, respectively, and our revenue generated from our largest customer was approximately RMB16.6 million, RMB21.9 million, RMB25.6 million and RMB12.5 million, respectively, representing approximately 11.8%, 11.9%, 12.2% and 12.7% of our total revenue respectively.

The following tables set forth certain information with respect to the five largest customers during the Track Record Period.

**BUSINESS**

**Year ended 31 December 2019**

Rank	Five largest customers	Background	Type(s) of products/services provided by our Group	Payment method	Credit period	Year of commencement of business relationship with us	Approximate revenue for the year ended 31 December 2019 (RMB'000)	Approximate percentage to the total revenue
1.	Jining No.1 People's Hospital 濟寧市第一人民醫院 ("Jining No.1 Hospital")	A Class-III-A public hospital based in Shandong Province which provides comprehensive medical services	Medical imaging film products and medical imaging cloud services	Bank transfer	90 days	2016	16,621	11.8
2.	Affiliated Hospital of Jining Medical University 濟寧醫學院附屬醫院 ("Jining Affiliated Hospital")	A Class-III-A public hospital based in Shandong Province with JCI accreditation and HIMSS Analytics EMRAM stage 6 certification	Medical imaging film products and medical imaging cloud services	Bank transfer	90 days	2016	12,833	9.1
3.	Shandong Provincial Hospital 山東省立醫院 ("Shandong Hospital")	A Class-III-A public hospital based in Shandong Province	Medical imaging film products and medical imaging cloud services	Bank transfer	180 days	2016	12,306	8.7
4.	Linyi People Hospital 臨沂市人民醫院 ("Linyi Hospital")	A Class-III-A public hospital based in Shandong Province	Medical imaging film products and medical imaging cloud services	Bank transfer	180 days	2016	11,391	8.1
5.	Liaocheng Hospital 聊城市人民醫院 ("Liaocheng Hospital")	A Class-III-A public hospital based in Shandong Province which focuses on acting as a regional medical centre and an institution for medical training and clinical trials	Medical imaging film products and medical imaging cloud services	Bank transfer	210 days	2017	9,581	6.8
						Five largest customers	62,732	44.5
						All other customers	78,093	55.5
						Total	140,825	100.0



**BUSINESS**

**Year ended 31 December 2020**

Rank	Five largest customers	Background	Type(s) of products/services provided by our Group	Payment method	Credit period	Year of commencement of business relationship with us	Approximate revenue for the year ended 31 December 2020 (RMB'000)	Approximate percentage to the total revenue
1.	Jining No.1 Hospital	A Class-III-A public hospital based in Shandong Province which provides comprehensive medical services	Medical imaging film products and medical imaging cloud services	Bank transfer	90 days	2016	21,886	11.9
2.	Jining Affiliated Hospital	A Class-III-A public hospital based in Shandong Province with JCI accreditation and HIMSS Analytics EMRAM stage 6 certification	Medical imaging film products and medical image cloud services	Bank transfer	90 days	2016	19,324	10.5
3.	Shandong Hospital	A Class-III-A public hospital based in Shandong Province	Medical imaging film products and medical imaging cloud services	Bank transfer	180 days	2016	18,736	10.2
4.	Linyi Hospital	A Class-III-A public hospital based in Shandong Province	Medical imaging film products and medical imaging cloud services	Bank transfer/bank acceptance bill	180 days	2016	10,468	5.7
5.	The Second Hospital of Shandong University 山東大學第二醫院 (“Shandong Second Hospital”)	A Class-III-A public hospital based in Shandong Province	Medical imaging film products and medical imaging cloud services	Bank transfer	90 days	2016	9,097	4.9
						Five largest customers	79,511	43.2
						All other customers	104,924	56.8
						Total	184,435	100.0

**BUSINESS**

**Year ended 31 December 2021**

Rank	Five largest customers	Background	Type(s) of products/services provided by our Group	Payment method	Credit period	Year of commencement of business relationship with us	Approximate revenue for the year ended 31 December 2021 (RMB'000)	Approximate percentage to the total revenue
1.	Shandong Hospital	A Class-III-A public hospital based in Shandong Province	Medical imaging film products and medical imaging cloud services	Bank transfer	180 days	2016	25,649	12.2
2.	Jining No.1 Hospital	A Class-III-A public hospital based in Shandong Province which provides comprehensive medical services	Medical imaging film products and medical imaging cloud services	Bank transfer	90 days	2016	22,011	10.4
3.	Jining Affiliated Hospital	A Class-III-A public hospital based in Shandong Province with JCI accreditation and HIMSS Analytics EMRAM stage 6 certification	Medical imaging film products and medical imaging cloud services	Bank transfer	90 days	2016	13,762	6.5
4.	Shandong Tumour Prevention Hospital & Institution 山東省腫瘤防治研究院 (“Shandong Tumour Prevention Hospital”)	A Class-III-A public hospital based in Shandong Province	Medical imaging film products and medical imaging cloud services	Bank transfer/bank acceptance bill	180 days	2017	12,713	6.0
5.	Shandong Second Hospital	A Class-III-A public hospital based in Shandong Province	Medical imaging film products and medical imaging cloud services	Bank transfer	90 days	2016	12,307	5.9
			Five largest customers				86,442	41.0
			All other customers				124,634	59.0
			Total				211,076	100.0

**BUSINESS**

**Six months ended 30 June 2022**

Rank	Five largest customers	Background	Type(s) of products/services provided by our Group	Payment method	Credit period	Year of commencement of business relationship with us	Approximate revenue for the six months ended 30 June 2022 (RMB'000)	Approximate percentage to the total revenue
1.	Jining No.1 Hospital	A Class-III-A public hospital based in Shandong Province	Medical imaging film products and medical imaging cloud services	Bank transfer	90 days	2016	12,508	12.7
2.	Shandong Hospital	A Class-III-A public hospital based in Shandong Province	Medical imaging film products and medical imaging cloud services	Bank transfer	180 days	2016	9,774	9.9
3.	Shandong Tumour Prevention Hospital	A Class-III-A public hospital based in Shandong Province	Medical imaging film products and medical imaging cloud services	Bank transfer/bank acceptance bill	180 days	2017	7,813	7.9
4.	Qianfoshan Hospital of Shandong Province 山东省千佛山醫院 (“Shandong Qianfoshan Hospital”)	A Class-III-A public hospital based in Shandong Province	Medical imaging film products and medical imaging cloud services	Bank transfer	300 days	2018	7,128	7.2
5.	Shandong Second Hospital	A Class-III-A public hospital based in Shandong Province	Medical imaging film products and medical imaging cloud services	Bank transfer	90 days	2016	5,477	5.6
						Five largest customers	42,700	43.3
						All other customers	55,921	56.7
						Total	98,621	100.0

## BUSINESS

During the Track Record Period and up to the Latest Practicable Date, to the best knowledge of the Directors, all of the top five customers were Independent Third Parties. None of the Directors or any of their respective associates, or any of the Shareholders who owned more than 5% of the issued share capital of the Company as of the Latest Practicable Date, held any interest in any of our Group’s five largest customers.

### Overlapping customer and supplier

For the year ended 31 December 2021, our Group had one overlapping customer and supplier, which is our Supplier G.

The following table sets out our Group’s total revenue and purchase amount from the overlapping customer-supplier during the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2019	2020	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<b>Sales to the overlapping customer-supplier</b>				
Sales revenue	—	—	192,544	—
As a percentage of our total sales revenue (%)	—	—	0.1	—
Gross loss	—	—	114,970	—
Gross loss margin (%)	—	—	59.7	—
<b>Purchase from the overlapping customer-supplier</b>				
Purchase amount	898,920	421,287	1,757,595	5,071,593
As a percentage of our total purchases (%)	0.8	0.4	1.2	10.0

Supplier G was one of our Group’s top five suppliers for the year ended 31 December 2021 and one of our Group’s customers for the year ended 31 December 2021. During the Track Record Period, Supplier G, as an OEM manufacturer, supplied customised medical imaging films to us. For the year ended 31 December 2021, Supplier G purchased customised medical imaging films, which were not the products we procured from Supplier G, from us. As one batch of our customised medical imaging films were about to expire, in order to avoid the inventory obsolescence and to facilitate our inventory turnover, we decided to sell it to Supplier G for its onward sales. Our Directors and Supplier G confirmed that it is a one-off transaction. Since the concerned customised medical imaging films sold to Supplier G was about to expire, the gross loss was due to the recognition of an impairment on such medical imaging films.

Our Directors confirm that our Group’s sales and purchases to/from such overlapping customers-supplier were (i) entered into after due consideration taking into account the prevailing purchase and selling prices at the relevant times, (ii) conducted in the ordinary course of business under normal commercial terms and on an arm’s length basis, (iii) at prices that are no less favourable than from other independent third parties who are not customer-supplier, and (iv) conducted on individual basis and the sales and purchases were neither inter-connected nor inter-conditional with each other. To the best knowledge of our Directors, save as disclosed above, our Group did not have any other overlap between our other major customers and major suppliers during the Track Record Period.

## BUSINESS

### **Product Life Cycle and Seasonality**

Generally, the product life cycle is affected by both the frequency of launch of new product models by our competitors and the pace of technological development. Our Directors are of the view that our medical imaging printers have a reasonable useful life, assuming that our customers perform regular inspections and maintenance. We believe that our provision of products and services are not subject to any significant seasonal trends.

### **Pricing and Settlement Terms**

We believe it is crucial to maintain a steady supply of quality products at competitive prices for the continuous success of our Group. We adopt different pricing policies in each business segment and details of which are set forth below:

#### ***(i) Sale of medical imaging film products***

In general, we adopt a "cost-plus" pricing policy. In determining our selling prices to our customers, for our distribution business, we take into account the costs of procuring international medical imaging film products and the regional market prices of competitors; whilst for our self-branded products business, we consider our OEM expenses, our packaging, labelling and/or assembly costs and the regional market prices of competitors.

Our Directors believe that our pricing strategy allows us to pass on part of the increase in purchase and operating costs to our customers. In order to stay profitable and competitive, we will also regularly monitor the pricing of our competitors as our points of reference and we will continue to determine and adjust the prices of our products in response to the prevailing market trend.

#### ***(ii) Provision of medical imaging cloud services***

Our sales model is to provide the medical imaging cloud services in the course of the sale of medical imaging films, and the price of our cloud services is charged at a range of premium rate on the unit selling price of each medical imaging film procured. The premium rate usually ranges from 4.0% to 12.0% and is determined with reference to the following factors, including (i) the type(s) of the services we are requested to provide; (ii) the quantities of the medical imaging films customer procured from us (if any); and (iii) the costs of providing medical imaging cloud services. We will regularly review the pricing policy of our cloud services and decide whether adjustment is needed according to the market conditions and other commercial consideration.

## BUSINESS

### Marketing

Our sales office is located in Jinan, Shangdong Province.

We believe that marketing and promotion are fundamental to maintaining our market position. As part of our marketing activities, we also participate in industry-related exhibitions in order to promote our products and services and to keep up with the relevant development trends of our industry. Set out below is a summary of the key exhibitions we participated in during the Track Record Period:

<u>Name of exhibitions</u>	<u>Location</u>	<u>Time</u>
The 82nd China International Medical Equipment Fair* (Autumn) (第82屆中國國際醫療器械(秋季)博覽會)	Shanghai	October 2019
The 85th China International Medical Equipment Fair* (Autumn) (第85屆中國國際醫療器械(秋季)博覽會)	Shenzhen	October 2021

### QUALITY CONTROL AND ASSURANCE

We recognise the importance of maintaining a satisfactory and consistent level of quality throughout our provision of services and products and believe that an effective quality management system is critical to ensure the quality of our products and services and hence maintain our reputation and success. We have adopted comprehensive quality control procedures during packaging and labelling process, assembly process, from procurement of raw materials to delivery of products. A quality control inspector is designated to be specifically responsible for the inspection, quality control and overseeing the quality of our raw materials and finished products. With our stringent quality assurance in place, we have been accredited with, among others, ISO 9001:2015 certification for quality management system in respect of the production and sales of Class I medical devices (medical printing film, thermal film), ISO 13485:2016 certification for medical device quality management system for the production and sales of medical printing film and thermal film, ISO 20000-1:2018 certification for information technology service management system in respect of providing medical image information management software operation and maintenance services to external customers, and ISO 27001:2013 certification for information security management system relating to the production and sales of medical printing film and thermal film.

## **BUSINESS**

### **Distribution business**

We fully comply with all relevant PRC laws and regulations to ensure the quality of our operations. Please see the section headed “Regulatory Overview” in this document for further details. Further, we only use suppliers that have excellent credentials and product quality track records.

When we receive products from our suppliers, we conduct selective spot inspections on the packaging, checkings on the quantity, serial numbers and qualification of the products. If such products are qualified, we will store them in our warehouse for distribution. If such products do not pass the examination, we will notify the supplier immediately for exchange of products.

### **Self-branded products business**

We have established quality control systems in accordance with all relevant national or industry guidelines. In addition, we also adhere to our internal quality control guidelines. We can replace any OEM manufacturer that fails to pass such inspections with suitable alternatives.

In particular, we implement stringent product quality requirements for our OEM manufacturers. In accordance with the applicable laws and regulations, we are liable to our customers for the obligations of our OEM manufacturers. Therefore, we observe the whole production process during onsite visits and conduct inspections and tests on the works of our OEM manufacturers to ensure they comply with the relevant laws and regulations before we place orders with them. During the Track Record Period, we did not encounter any disruptions to our business due to material non-compliance, counterparty default or business interruption by OEM manufacturers.

**BUSINESS**

**LICENCE AND PERMITS**

The medical imaging industry is highly regulated and we are subject to laws, regulations and supervision by different levels of regulatory authorities and is required to maintain various licences, permits, approvals and certificates in order to operate the facilities and conduct the business. A summary of such relevant laws and regulations which the business operations are subject to is set out in the section headed “Regulatory Overview” in this document. As advised by the PRC Legal Advisers and as confirmed by the Directors, we have obtained all necessary licences, permits, approvals and certificates to conduct the business in material respects and such licences, permits, approvals and certificates are valid and remain in effect as at the Latest Practicable Date. The following table sets forth details of the material licences and permits for the business operations:

<u>Company</u>	<u>Licence and permit</u>	<u>Issuing authority</u>	<u>Date of issue</u>	<u>Date of expiry</u>
Jinan Guanze	Class I Medical Device Registration Certificate (Medical dry laser film) (第一類醫療器械生產備案憑證) (醫用乾式激光膠片)	Jinan City Administrative Approval Service Bureau (濟南市行政審批服務局)	14 November 2018	—
Jinan Guanze	Class I Medical Device Registration Certificate (Thermal film) (第一類醫療器械生產備案憑證) (熱敏膠片)	Jinan City Administrative Approval Service Bureau (濟南市行政審批服務局)	15 November 2018	—
Jinan Guanze	Class I Medical Device Registration Certificate (Self-service film output printer) (第一類醫療器械生產備案憑證) (自助取片機)	Jinan City Administrative Approval Service Bureau (濟南市行政審批服務局)	10 December 2018	—
Jinan Guanze	Class I Medical Device Registration Certificate (Medical image printer) (第一類醫療器械生產備案憑證) (醫用圖像打印機)	Jinan City Administrative Approval Service Bureau (濟南市行政審批服務局)	18 December 2018	—



**BUSINESS**

<u>Company</u>	<u>Licence and permit</u>	<u>Issuing authority</u>	<u>Date of issue</u>	<u>Date of expiry</u>
Jinan Guanze	Class III Medical Device Business Operation Certificate (第三類醫療器械經營許可證)	Jinan High Technology Development Zone Management Committee (濟南高新技術產業開發區管理委員會)	18 December 2021	26 December 2023
Jinan Guanze	Class I Medical Device Registration Certificate (Medical printing film) (第一類醫療器械生產備案憑證) (醫用打印膠片)	Jinan City Administrative Approval Service Bureau (濟南市行政審批服務局)	4 January 2019	—
Shanghai Guanze	Class II Medical Device Business Registration Certificate (第二類醫療器械經營備案憑證)	Market Supervision and Administration Authority of Shanghai Pudong New District (上海市浦東新區市場監督管理局)	9 March 2020	—
Jinan Guanze	Class II Medical Device Business Registration Certificate (第二類醫療器械經營備案憑證)	Jinan City Administrative Approval Service Bureau (濟南市行政審批服務局)	12 June 2020	—
Shanghai Guanze	Class III Medical Device Business Operation Certificate (第三類醫療器械經營許可證)	Market Supervision and Administration Authority of Shanghai Pudong New District (上海市浦東新區市場監督管理局)	7 February 2021	6 February 2026
Jinan Guanze	Medical Device Registration Certificate (PACS System) (醫療器械註冊證) (醫學影像管理與通訊系統軟件)	Shandong Province Drug Administration (山東省藥品監督管理局)	30 June 2021	29 June 2026

**BUSINESS**

<u>Company</u>	<u>Licence and permit</u>	<u>Issuing authority</u>	<u>Date of issue</u>	<u>Date of expiry</u>
Jinan Guanze	Medical Device Registration Certificate (Year 2017 Catalogue: Class II; 21-02 Image Processing Software) (醫療器械生產許可證) (2017年分類目錄：II類：21-02影像處理軟件)	Shandong Province Drug Administration (山東省藥品監督管理局)	12 August 2021	11 August 2026
Jinan Guanze	Class I Medical Device Registration Certificate (Medical laser film) (第一類醫療器械生產備案憑證) (醫用激光膠片)	Jinan City Administrative Approval Service Bureau (濟南市行政審批服務局)	29 January 2022	—
Jinan Guanze	Class I Medical Device Registration Certificate (Medical thermal film) (第一類醫療器械生產備案憑證) (醫用熱敏膠片)	Jinan City Administrative Approval Service Bureau (濟南市行政審批服務局)	10 March 2022	—

We intend to apply for renewal of the above key licences, permits, approvals and certificates prior to their respective expiry dates. We did not experience any difficulties in renewing the necessary licences, permits, approvals and certificates during the Track Record Period, and we expect there is no material difficulty in renewing them when they expire. Our PRC Legal Advisers confirmed that, as at the Latest Practicable Date, there was no legal impediment for us to renew the licences, permits and certificates as long as we comply with the relevant legal requirements.

## BUSINESS

### AWARDS AND RECOGNITION

We have been accredited the below certificate in recognition of our work, details of which are set out below:

<u>Year</u>	<u>Awards and recognition</u>	<u>Award holder</u>	<u>Issuing authority</u>
2021	Certificate of High and New Technology Enterprise 高新技術企業證書 (GR202137006758)	Jinan Guanze	Ministry of Science & Technology of Shandong Province (山東省科學技術廳), Department of Finance of Shandong Province (山東省財政廳), State Administration of Shandong Province (國家稅務總局山東省稅務局)

### DATA SECURITY

We generally do not acquire data of customers or patients during our provision of medical imaging cloud services. The medical data and information in our digital medical imaging cloud storage platform are stored and archived in the virtual storage drive operated by a PRC state-owned company (the “**Cloud Storage Provider**”), and hence the Cloud Storage Provider is responsible for the protection of such data and information.

During the Track Record Period, we procured software, which is connected to the virtual storage drive, from our software supplier to provide medical imaging cloud services to our customers and the data of customers or patients will be stored and archived in the virtual storage drive in the course of using the software. Accordingly, in any event of data leakage due to technical issues of the software, our software supplier shall bear the primary responsibility for any losses or damages resulting from the leakage as confirmed by the software supplier.

However, any improper or unauthorised use or disclosure of such medical data by us, our employees or our business partners could subject us to reputational, financial, legal and operational consequences. If an actual or perceived breach of security occurs, the market perception of the effectiveness of our security measures could be harmed, we could lose customers and we may be exposed to significant legal and financial risks, including legal claims and regulatory fines and penalties. Any of these actions could have a material and adverse effect on our business and results of operations. For further details, please refer to the paragraph headed “Cyber-security and privacy breaches may hurt our business” in the “Risk Factors” section.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we have not encountered any breaches of personal data privacy or relevant leakages or disputes, nor have we been involved in any litigation, arbitration or administrative proceedings or subject to any penalties or fines in this respect.

## BUSINESS

### ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE

#### Governance

We acknowledge our responsibilities on environmental protection, social responsibilities and is aware of the climate-related issues that may have impact on its business operation. We are committed to comply with the environmental, social and governance (“**ESG**”) reporting requirements upon [REDACTED]. We have established an ESG policy (the “**ESG Policy**”) in accordance with the standards of Appendix 27 to the Listing Rules, which outlined, among others, (i) the appropriate risk governance on ESG matters, including climate-related risks; (ii) identification of key stakeholders and the communication channels to engage with them; (iii) ESG governance structure; (iv) ESG strategy formation procedures; (v) ESG risk management and monitoring; and (vi) the identification of key performance indicators (“**KPIs**”), the relevant measurements and mitigating measures.

Our ESG policy also sets out the respective responsibility and authority of different parties in managing the ESG matters. Our Board has an overall responsibility for overseeing and determining our Group’s environmental, social, and climate-related risks and opportunities impacting our Group, establishing and adopting the ESG policy and targets of our Group, reviewing our Group’s performance annually against ESG-related targets and revising the ESG strategies as appropriate if significant variance from the target is identified.

Our Board has established an ESG working group that comprises of various head of department, including but not limited to our management department, accounting and finance department and technical department. The ESG working group serves as a supportive role to the Board in implementing the agreed ESG policy, targets and strategies; taking involvement into the annual enterprise risk assessment; conducting materiality assessments of ESG areas and assess how our Group adapts its business in light of climate change; collecting ESG data from different parties while preparing for the ESG report; and continuous monitoring of the implementation of measures to address our Group’s ESG-related risks. The ESG working group is also responsible for the investigation of deviation from targets and liaise with the relevant functional department to take prompt rectification actions for such deviation. The ESG working group has to report to our Board on a semi-annually basis via board meetings on the ESG performance of our Group and the effectiveness of the ESG systems.

We have adopted various strategies and measures to evaluate and manage the material ESG related areas and to ensure our compliance with the Stock Exchange’s requirements on ESG, including but not limited to, discussing among our management team from time to time to ensure all the material ESG areas are recognised and reported, and ensuring the recommendations and the requirements on ESG under the Listing Rules are complied with. Our Board has conducted stakeholder engagement through different communication channels, and materiality assessment on ESG areas to identify the key ESG areas towards our Group and our stakeholders. During the materiality assessment, our Group has identified several key ESG areas, including environmental and resources management, climate change, employee’s benefits, occupational health and work safety, product and service quality and return and protection of intellectual property rights. We have established a set of ESG policies to mitigate risks in these areas to ensure that we comply with local laws and regulations. These key ESG areas may present a variety of risks and opportunities for our Group. Our Group will continue to monitor related performances.

## BUSINESS

### **Strategies in addressing ESG-related risks**

We will conduct enterprise risk assessment at least once a year to cover the current and potential risks faced by our Group, including, but not limited to the risks arising from the ESG aspects and strategic risk around disruptive forces such as climate change. Our Board will assess the risks and review our Group’s existing strategy, target and internal controls, and necessary improvement will be implemented to mitigate the risks. Our Board, Audit Committee and the ESG working group will maintain oversight of our Group’s approach to risk management, including climate-related risks and risks are monitored as part of the standard operating processes to ensure the appropriate mitigations are in place as part of the regular management reviews. The decision to mitigate, transfer, accept or avoid a risk is resulted after our enterprise risk assessment process and directly influence the mitigating steps of those identified risks. Our Group will incorporate climate-related issues, including physical and transition risk analysis, into our risk assessment processes and risk appetite setting. If the risk and opportunities are considered to be material, our Group will make reference to them in the course of the strategy and financial planning process. Upon annual review of the ESG-related risks, and our Group’s performance in addressing the risks, we may revise and adjust the ESG strategies as appropriate.

### **Environmental and Resources Management**

Our operations are subject to the relevant environmental protection laws and regulations promulgated by the PRC government, a summary of which is set out in the section headed “Regulatory Overview — Regulations Relating to Environment Protection” in this document. Given the nature of our business (please refer to the paragraph headed “Business — Our Packaging and Labelling, and Assembly Processes” for details), our operational activities do not directly generate industrial pollutants and thus our Directors are of the view that the Group’s operational activities do not significantly pose negative impact to the environment and the Group is not aware of any material environmental liability risk or compliance costs during the Track Record Period. Our Directors also expect that we will not incur significant costs for the compliance with applicable environmental protection rules and regulations in the future. However, as a supporter of environment protection, we advocate for green office practises to reduce our carbon footprint, constantly raise the awareness of environmental protection among our employees and take account of the resources and materials we uses in daily operation.

#### *Resources management*

Our energy consumption is mainly derived from electricity consumption in offices and warehouse during our daily operation. We endeavour to proactively conserve energy in response to the government’s initiatives and thus we have implemented measures to increase energy efficiency in our operations to fulfil our environmental and social responsibility. Our measures for saving energy mainly include requiring employees to turn off lights, equipment and other electronic devices when the devices are not in operation and before they leave the premises; using lighting products that are more energy-efficient, such as LED lighting and automatic temperature control air-conditioning system.

## BUSINESS

### *Waste management*

Routine domestic waste generated from the daily operation is stored according to the local garbage classification requirements and then will be transferred to waste treatment plant by the local environment and hygiene authority.

Our Directors confirm that we have obtained applicable permits and licences under PRC environmental laws and regulations that are material to our operations. Please refer to the paragraph headed “Business — Licence and Permits” for more details. As advised by our PRC Legal Advisers, we were not subject to any material claims or penalty in relation to environmental protection during the Track Record Period. During the Track Record Period, we were in compliance with the applicable environmental protection laws and regulations in all material aspects.

### **Metrics and targets of ESG-related risks**

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

GHG emissions mainly consists of scope 1 direct emissions and scope 2 indirect emissions that arise from our use of vehicles and electricity consumption in offices and warehouse during our daily operation, respectively. Emission of air pollutant is not significant as those vehicles of the Group were mainly for limited delivery in local area.

The table below sets forth the quantitative disclosure of GHG emissions and energy consumption during the Track Record Period of our operation in the PRC.

	Year ended 31 December			Six months ended 30 June
	2019	2020	2021	2022
GHG emissions				
Scope 1 direct emissions (kg CO <sub>2</sub> equivalent)	—	26,866.69	53,838.61	26,866.69
Scope 2 indirect emissions (kg CO <sub>2</sub> equivalent)	10,127.66	10,920.79	11,957.96	6,467.06
Total (kg CO <sub>2</sub> equivalent)	10,127.66	37,787.48	65,696.57	33,333.75
Intensity (kg CO <sub>2</sub> equivalent/Revenue RMB'000)	0.07	0.20	0.31	0.34
Energy consumption				
Diesel (litre)	—	10,278.00	20,558.00	10,278.00
Purchased electricity (kWh)	16,600.00	17,900.00	19,600.00	10,600.00

The emission targets of our Group include (i) 100% compliance rate on local laws and regulations relating to environmental protection and (ii) zero complaint. Going forward, we plan to control the consumption of energy and GHG emissions and aim to maintain relevant levels at 90% to 110% compared to that of 2021 over the next three years. Our management department will monitor our environmental protection measures regularly and our accounting and finance department will continue to keep record for monitoring purpose.

**BUSINESS**

*Tackle with climate change*

In terms of major climate change related impact that may affect us, we make reference to the Task Force on Climate-Related Financial Disclosures (“TCFD”) framework to evaluate the magnitude of the climate impact. The potential climate change risks can be categorised into (a) transition risks: being the risks arising from compliance with the applicable environmental laws and regulations and the stringent environmental protection standards; and (b) physical risks: being the risks for the damages arising from acute weather-related events and longer-term chronic shifts in climate patterns.

Set forth below is a summary of the climate-related risks our Group identified over the short, medium and long term.

	<b>Risks</b>	<b>Sources</b>	<b>Potential Impacts</b>
Short term	Physical risks (actual)	— Extreme weather conditions such as typhoon and snow storms	— Reduced revenue from damage to assets and disruption to supply chain  — Increased operating expenses
Long term	Transition risks (potential)	— Change in climate-related regulations  — Shifts in customer preferences	— Increased cost of products due to changes in regulations  — Reduced demand for our products

Regarding physical risks, we have implemented contingency plans and purchased adequate insurance to safeguard us and our employees against any climate change or extreme weather conditions like typhoon and snow storm that would materially and adversely affect our business and operations. Please refer to the paragraph headed “Business — Insurance” for details.

In response to transition risks, particularly (i) the evolving environmental and climate regulatory requirements and (ii) the shifts in customer preferences that could lead to negative financial impact such as increase our environmental compliance costs and decrease in revenue due to reduced demand for our products, we have adopted a series of measures to minimise the risks of environment pollution and non-compliance with the applicable environmental laws and regulations. For details, please refer to the paragraph headed “Environmental, Social and Corporate Governance — Environmental and Resources Management” in this section. Climate change is also an opportunity to our medical imaging cloud services as medical practitioners will be able to access to the patient’s medical image data anytime anywhere with his/her electronic devices whenever there is an internet connection, thus it can not only provide a paperless business environment but can also save extra energy consumption for logistics of medical data transfer.

## **BUSINESS**

During the Track Record Period, we had not experienced any material impact on our business operations or financial performance as a result of climate change or extreme weather conditions. Our Group’s budgets for addressing risk of climate change in the financial year ending 2022 is approximately RMB8,000 as expenses for application of the ISO 14001:2015 environmental management system standard.

For further discussion on the other key ESG areas we have identified, namely, the areas of employee’s benefits, occupational health and work safety, product and service quality and return and protection of intellectual property rights, please refer to the paragraphs headed “Employees and Labour Relations”, “Health and Work Safety”, “Quality Control and Assurance”, “Our Business Workflow — Completion and After-sales” and “Intellectual Property” in this section.

To sum up, we attach great importance to our ESG management and recognise that an effective and efficient ESG management requires our continuous efforts and investment and contribution from a variety of departments and subsidiaries. We endeavour to further improve the environmental and social data metrics. Furthermore, we plan to prepare and launch our first ESG report in accordance with the standards of Appendix 27 to the Listing Rules which will include more qualitative and quantitative ESG information and analysis by the first half of 2023.

### **HEALTH AND WORK SAFETY**

We are committed to provide a safe working environment for our employees. Various safety policies and control systems are implemented to promote safety on work sites. All of our employees received safety-related training regularly during their employment with us. We had not been involved in any accident or fatality and had been in compliance with the relevant laws and regulations in all material aspects during the Track Record Period.

### **RESEARCH AND DEVELOPMENT**

We believe our research and development capabilities are the driving force for our future growth and development. Our research and development team is responsible for formulating an application programming interface (API) to connect our software with the existing information technology systems of our customers when new customers engage us to provide our medical imaging cloud services.

For the three years ended 31 December 2021 and the six months ended 30 June 2022, our research and development expenses amounted to approximately RMB1.4 million, RMB1.2 million, RMB396,000 and RMB185,000, respectively, accounting for approximately 1.0%, 0.6%, 0.2% and 0.2%, respectively, of our total revenue.

As at the Latest Practicable Date, we have an in-house engineering team consisting of nine members, which is led by our Chief Technical Officer, Mr. Wang Fei, who is a member of our senior management, has approximately seven years of experience in research and development in software engineering and software development. Our research and development team members have an average of three-year experience in software engineering and software development, and all of them received tertiary education.



## BUSINESS

### INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we had 15 trademark registrations and 43 registered software copyrights. For further information relating to the intellectual property rights of our Group, please refer to the paragraph headed “Statutory and General Information — B. Further information about the Business of our Company — Intellectual property rights of our Group” set out in Appendix IV to this document.

Our PRC Legal Advisers have confirmed that they are not aware of any infringements, disputes or litigations in respect of intellectual property rights to which our Group was a party during the Track Record Period.

During the Track Record Period, we were not a party to any pending or threatened claims by or against it with respect to third parties for the material infringement of intellectual property rights owned by our Group or third parties.

### MARKET AND COMPETITION

#### Market size

According to CIC, the market size of the medical imaging film products industry in China increased from approximately RMB5.7 billion in 2016 to approximately RMB6.6 billion in 2021 at a CAGR of 2.9%. This market is expected to be at around RMB4.8 billion in 2030. The market size of medical imaging film products industry in Shandong Province increased from approximately RMB0.38 billion in 2016 to approximately RMB0.42 billion in 2021 with a stable increasing rate and it is expected to be at around RMB0.35 billion in 2030.

Because of the rapid popularisation of internet and the continuous information technological development, an increasing number of hospitals and healthcare institutions in China are deploying medical imaging cloud services for improving efficiency and convenient image reading, resulting in the continuous growth of the market size from approximately RMB0.7 billion in 2016 to approximately RMB3.5 billion in 2021 at a CAGR of 36.6%. Driven by the needs of larger storage capacity due to the improvement in imaging devices and significant increase in image volume, cloud platform becomes a more cost-efficient way than traditional local storage. Coupled with the needs of information and data sharing within regions and between hospitals and healthcare institutions, the market size of medical imaging cloud services industry in China is expected to further grow from approximately RMB3.5 billion in 2021 to approximately RMB18.9 billion in 2030 with a CAGR of 20.6%. Benefitted from the abundant medical resources, rapid informatisation development and huge demand for medical diagnosis and treatment in Shandong Province, the market size of the medical imaging cloud services industry in Shandong Province increased rapidly from less than RMB0.06 billion in 2016 to approximately RMB0.30 billion in 2021 at a CAGR of approximately 40.5%, and it is expected to keep continuous growth and reach approximately RMB1.63 billion in 2030 with a CAGR of approximately 20.5%.

## BUSINESS

The medical imaging film products market in Shandong Province is highly concentrated on a number of medical imaging film manufacturers in the market, with the top two companies accounting for approximately 85.0% of the market share in terms of sales revenue in 2021, and the medical imaging cloud services market in Shandong Province is relatively concentrated as compared to the same market in China, however, the market in Shandong remains to be fragmented. The top three medical imaging cloud services providers in Shandong Province (including our Group) accounted for approximately 16.4% of the market share in terms of sales revenue in 2021.

In respect of our medical imaging film products business, our Group engages in distributing medical imaging film products from international brands and supply our self-branded medical imaging film products. For our distribution business, our Group was the biggest Tier-2 distributor of the Medical Imaging Products Manufacturer in Shandong Province in terms of sales volume in 2021, according to CIC. In respect of our medical imaging cloud services business, our Group was the third largest medical imaging cloud services supplier in Shandong Province with a market share of approximately 4.7%, in terms of sales revenue in 2021.

### Expected changes in the regulatory environment in the PRC

In 2021, the National Health Commission (NHC) published “Notice on Accelerating the Mutual Recognition of the Examination Results”, which calls for the construction of the national and regional health information platform, through the establishment of medical institutions examination database including “medical imaging cloud films” serving as the source of database, in order to promote the sharing of examination data, to achieve the interconnection and mutual recognition of examination data between medical institutions in the same region.

### EMPLOYEES AND LABOUR RELATIONS

As at the Latest Practicable Date, we had 43 employees. All of the employees are based in the PRC. The following table sets forth a breakdown of the employees by function as at the Latest Practicable Date:

	<i>Number</i>
Management	5
Business	5
Accounting and finance	6
Sales and marketing	10
Procurement	4
Technical	8
Logistics	3
Administration	2
<b>Total</b>	<b>43</b>

There was no labour union established by our employees as at the Latest Practicable Date.

## **BUSINESS**

We enter into a standard employment contract with each employee. Compensation for the employees includes basic wages, performance wages, bonus and other benefits. We recruit new employees based on specific job requirements, our resources and needs from time to time. We consider a number of factors in selecting and recruiting new employees, including relevant work experience, educational background, skills and knowledge. We value our employees and provide them with internal training programs. In addition, we promote equal opportunity and diversity in the workplace and we do not tolerate discrimination based on race, colour, religion, sex, marital status, age, national origin, or any other considerations deemed inappropriate by local labour laws. We believe this will increase the overall competitiveness of our workforce.

In compliance with applicable PRC laws and regulations, we are required to make contributions to various PRC Government sponsored employee benefit funds, including pension plans, basic medical insurance (including maternity insurance), unemployment insurance and work-related injury insurance.

We consider that we have maintained good relationship with our employees. The average length of service of our employees during the Track Record Period has been over four years. During the Track Record Period, we have not experienced any material disputes with our employees or any disruption to our business and operations due to labour disputes, nor have us experienced any material difficulties in recruitment and retention of experienced core staff or skilled personnel during the Track Record Period.

## BUSINESS

### PROPERTIES

#### Owned Properties

As at the Latest Practicable Date, we owned two properties in Shandong Province, details of which are as follows:

<u>Location</u>	<u>Approximate GFA</u> <i>(sq.m.)</i>	<u>Tenure</u>	<u>Permitted Usage</u>	<u>Actual Usage</u>	<u>Owner</u>
501, Building 10, Strategic Emerging Industry Base, Jinan High-tech Zone, 2966 Chunhui Road, High- tech Zone, Jinan, Shandong, the PRC* (中國山東省濟南市高 新區春暉路2966號濟 南高新區戰略性新興 產業基地10號樓501)	970.09	Until 2 November 2064	Industrial purposes Emerging	Factory and office	Shanghai Guanze
601, Building 10, Strategic Emerging Industry Base, Jinan High-tech Zone, 2966 Chunhui Road, High- tech Zone, Jinan, Shandong, the PRC* (中國山東省濟南市高 新區春暉路2966號濟 南高新區戰略性新興 產業基地10號樓601)	1,019.34	Until 2 November 2064	Industrial purposes	Factory and warehouse	Jinan Guanze

As advised by our PRC Legal Advisers, we are entitled to legally own, occupy and use these properties within the scope of use specified in the real property certificate and in accordance with relevant PRC laws and regulations regarding the use of land and ownership of buildings.

## BUSINESS

### Leased properties and property occupied by us for free

As at the Latest Practicable Date, we leased two properties in Shanghai and licenced one property in Shandong Province, details of which are as follows:

<u>Location</u>	<u>Approximate GFA</u> <i>(sq.m.)</i>	<u>Rental</u> <i>(RMB)</i>	<u>Tenure</u>	<u>Permitted Usage</u>	<u>Actual Usage</u>	<u>Lessee</u>
1. Room 1111, 11th Floor, D3-005, Block D, No. 355, Futexi First Road, China (Shanghai) Pilot Free Trade Zone* (中國(上海)自由貿易試驗區富特西一路355號D區D3-005地塊11層1111室)	47.36	1.5 per sq.m. per day	20 January 2020 to 19 January 2023	Industrial purpose	Warehouse	Shanghai Guanze
2. Room 803, 8th Floor, Tower, Block 001, Block C, No. 1 Keelung Road, Waigaoqiao Free Trade Zone, Shanghai* (上海市外高橋保稅區基隆路1號C區001地塊塔樓第8層803室)	50.6	3.0 per sq.m. per day	16 November 2020 to 15 November 2025	Office purpose	Office	Shanghai Guanze
3. Room 1702, Block 2, Jinyu Building, No.3-1 Jiefang East Road, Lixia District, Jinan City, Shandong Province* (山東省濟南市歷下區解放東路3-1號金宇大廈2號樓1702室)	94.85	Nil ( <i>Note 1</i> )	1 February 2022 to 31 January 2023	Business and financial purposes	Office	WFOE, Shandong Guanze

*Note:*

1. For the purpose of promoting the economic development of the region, no rent has been charged by the government, the lessor, for the use of the subject premise.

As at the Latest Practicable Date, we had no single property with a carrying amount of 15% or more of our total assets, and on this basis, we are not required by Rule 5.01A of the Listing Rules to include in this document any valuation report. Pursuant to section 6(2) of the [REDACTED], this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of the interests in land or buildings.

## BUSINESS

### *Inconsistency with permitted use*

The current usage of leased property No. 1 is inconsistent with its permitted usage. We currently use this premises as our warehouse while the permitted usage under the building ownership certificate is industrial. As at the Latest Practicable Date, we had not received any challenge to our right to occupy and use the properties upon it. Our PRC Legal Advisers are of the view that our continuing operations will not be materially affected because (i) the relevant laws and regulations did not set out lessee will be subject to administrative action or punishment if the permitted usage of property is inconsistent with the actual usage; (ii) no administrative actions or punishments have been initiated or imposed on Shanghai Guanze; (iii) our Directors are of the view that, if the inconsistency with permitted land use prevents us from continuing the lease so that we are required to move to another location, we can relocate to other comparable alternative premises in the relevant regions without any material adverse effect on our business and financial condition.

### *Failure to register leased properties*

As at the Latest Practicable Date, the leased properties of No. 1 and 2 had not been registered with the relevant government authority required by the PRC laws. Registration of lease agreement requires the landlord’s cooperation, including submission of their identity documentations and relevant title certificates to relevant authorities, which may be out of our control.

Our PRC Legal Advisers have advised us that according to the Administrative Measures for the Leasing of Commodity Housing (《商品房屋租賃管理辦法》), if a company fails to register the leases within 30 days after it enters into the lease agreements, the relevant local authority is entitled to order the company to do so within a prescribed time limit. If the company fails to do so within such prescribed time limit, a maximum fine of RMB10,000 will be imposed on each non-registration. During the Track Record Period and up to the Latest Practicable Date, we had not been ordered by any authority to register the unregistered lease agreements; nor had we received any challenge to our right to lease any property under our lease agreements. Our PRC Legal Advisers have further advised us that the lack of registration of a lease does not affect the legality, validity or enforceability of these lease agreements.

### *Absence of building ownership certificate*

As at the Latest Practicable Date, lessor of the licenced property No. 3, which we primarily use it as the registered address of WFOE and Shandong Guanze, was unable to provide the building ownership certificate of the property. Should disputes arise due to title encumbrances to such properties, we may encounter difficulty in continuing to use such property as the registered address of WFOE and Shandong Guanze and may be required to relocate. Our Directors are of the view that we can relocate to other comparable alternative premises in the relevant regions without any material adverse effect on our business and financial condition.

For further details, please refer to the paragraph headed “Risk factors — Risks relating to our business and operations — We may be subject to fines as a result of unregistered lease.” and “Risk factors — Risks relating to our business and operations — Certain of our leased properties are not used for the permitted usage under the relevant building ownership certificate and we may be subject to challenge, lawsuit or other actions taken against us with respect to these properties” in this document.

## BUSINESS

### INSURANCE

We maintain insurance policies that are required under PRC laws and regulations as well as policies based on our assessment of our operational needs and industry practise. We are subject to the social insurance system of the PRC and are required to make contributions for our employees towards five categories of insurance, including make contributions for basic pension, basic medical, unemployment, work injury and maternity insurances for our employees.

Our Directors consider that our existing insurance coverage is in line with industry norm and is sufficient for our present operations. As at the Latest Practicable Date, we had not made nor been the subject of any material insurance claims. However, our business operations are susceptible to potential losses caused by a wide range of business disruptions and we may not be fully indemnified for our losses under our current insurance coverage. Please refer to the paragraph headed “Risk Factors — Risks relating to our business and operations — We may not have sufficient insurance coverage to cover the risks relating to our operations” for more details.

### LEGAL PROCEEDINGS AND COMPLIANCE

We are subject to the laws, regulations and supervision of the regulatory authorities in the PRC and are required to maintain certain licences, permits and approvals in order to operate our business. A summary of the relevant PRC laws and regulations which our business operations are subject to is set out in the section headed “Regulatory Overview” in this document. As advised by our PRC Legal Advisers and as confirmed by our Directors, during the Track Record Period and up to the Latest Practicable Date, we had complied with relevant laws and regulations in all material respects in the PRC.

As at the Latest Practicable Date, our Directors confirm that, to their best knowledge, neither our Company nor any of our subsidiaries were aware of any material litigation, arbitration, investigation or non-compliance matters pending or threatened against our Company or any of our subsidiaries or any of our Directors, that would have material adverse effect on our business operation or financial results.

### INTERNAL CONTROL OVER BUSINESS OPERATIONS

#### Internal Control Measures

In preparation for the [REDACTED], we engaged an Independent Third Party professional internal control consultant (the “**Internal Control Consultant**”) in December 2020 to perform a review of our internal control systems and procedures on a fact-finding basis and to provide recommendations for addressing the findings during the review. The Internal Control Consultant provided recommendations in relation to strengthening our Group’s internal controls. In order to continuously enhance our corporate governance and to prevent recurrence of non-compliance incidents, our Directors confirmed that the recommendations provided by the Internal Control Adviser have been or will be implemented.

The Internal Control Consultant conducted follow-up review in June 2021 on the remediation status of our internal control system and the result is satisfactory. Our Directors are of the view that our Group has adequate and effective internal control procedures in place for our operations.

## BUSINESS

The table below sets out some major findings by the Internal Control Consultant and our measures implemented in response to the recommendations made:

<b>Major findings</b>	<b>Recommendations</b>	<b>Corresponding measures taken by our Group</b>
Corporate governance structure in compliance with the Listing Rules is not in place.	<p>Compose the board in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (“<b>CG Code</b>”).</p> <p>Set up the audit committee, nomination committee and remuneration committee with written terms of reference in compliance with the Listing Rules and the CG Code.</p> <p>Appoint the qualified company secretary in compliance with Rule 3.28 of the Listing Rules.</p>	<p>Our Company will establish a board of directors and the board committees with written terms of reference in compliance with the CG Code before [REDACTED]. The Board will have a total of six members, including two executive Directors (Mr. Meng Xianzhen and Mr. Guo Zhenyu), one non-executive Director (Ms. Meng Cathy) and three independent non-executive Directors (Dr. Zhao Bin, Dr. Chang Shiwang, Dr. Wong Man Hin Raymond). An audit committee will be established with Dr. Wong Man Hin Raymond as chairman and Dr. Zhao Bin and Dr. Chang Shiwang as members. A remuneration committee will be established with Dr. Chang Shiwang as chairman and Mr. Meng Xianzhen and Dr. Zhao Bin as members. A nomination committee will be established with Mr. Meng Xianzhen as chairman and Dr. Zhao Bin and Dr. Chang Shiwang as members.</p> <p>Mr. Zhang Senquan was appointed as the company secretary of our Company on 17 September 2021.</p>



## BUSINESS

<b>Major findings</b>	<b>Recommendations</b>	<b>Corresponding measures taken by our Group</b>
<p>Our Group has not formulated or adopted Model Code for Securities Transactions by directors as set out in Appendix 10 to the Listing Rules as our code of conduct regarding directors’ securities transactions, establish a mechanism for the supervision of directors’ securities transactions and an information disclosure system.</p>	<p>Formulate or adopt the “Model Code for Securities Transactions by Directors” as set out in Appendix 10 to the Listing Rules as our Company’s code of conduct regarding directors’ securities transactions, establish a mechanism for the supervision of directors’ securities transactions and an information disclosure system, and classify and regulate different types of directors’ securities transactions.</p>	<p>Our Company has formulated the “Group’s Management Securities Transactions Code” (《集團管理層證券交易守則》), the “Management System for Persons with Inside Information” (《內幕信息知情人管理制度》), and the “Accountability System for Major Errors in Information Disclosure in our Company’s Annual Report” (《公司年度報告信息披露重大差錯責任追究制度》), in which the securities of directors are classified and the various types of securities transactions are regulated and the corresponding management policies for information disclosure are established.</p>
<p>Our Company has not established an information confidentiality management system.</p>	<p>Establish an information confidentiality management system, including regulations on the scope and level of confidentiality, confidentiality measures, responsibilities and penalties in relation to company information.</p>	<p>Our Company has formulated the “Measures for the Management of Commercial Secrets” (《商業秘密管理辦法》), which clearly stipulates the scope of our commercial secrets, confirmation and decryption of confidential information, ownership rights of confidential information, confidentiality obligations of employees, etc.</p>

## BUSINESS

<b>Major findings</b>	<b>Recommendations</b>	<b>Corresponding measures taken by our Group</b>
<p>Our Company has not established an anti-monopoly management mechanism nor monitored existing or potential anti-monopoly matters, nor has it conducted anti-monopoly training for its employees.</p>	<p>Establish an anti-monopoly management system, strengthen the monitoring and management of existing or potential anti-monopoly matters and provide training to relevant personnel on anti-monopoly laws and regulations.</p>	<p>Our Company has formulated the “Group Company Anti-monopoly Compliance Management Measures” (《集團公司反壟斷合規管理辦法》), which clearly requires our Company to compete fairly and strictly abide by the law in production and operation activities, and avoid directly or indirectly engaging in monopolistic behaviours prohibited by the relevant anti-monopoly laws. Our Company has also provided anti-monopoly training to our management in May 2021.</p>

### **Anti-Corruption and Anti-bribery Measures**

As part of our risk management and internal control system, we have formally established a set of internal policies in relation to bribery and corruption and fraudulent activities, which strictly prohibit paying or receiving bribes and kickbacks in commercial transactions. The following measures have been implemented in order to prevent such illegal practises:

- we have formally adopted an employee handbook to standardise our employees’ code of conduct which strictly forbids paying or receiving bribes. Upon signing the employment contracts, our employees agreed to abide by the terms and conditions of the employee handbook. We also have in place an employee code of ethics to prohibit illegal practises such as bribery and corruption and fraudulent activities. Our employees have signed anti-bribery and corruption agreement to undertake not to participate in such illegal practises. Employees who violate any of the terms of the employee handbook, employee code of ethics or anti-bribery and corruption agreement are subject to penalties, including termination of employment;
- we have implemented a policy on reporting on conflict of interest setting out the procedures to manage transactions or events involving any conflict of interest of employees; and
- we have in place an anti-fraud management policy setting out the responsibility of the Board of Directors and audit committee to cultivate an anti-fraud culture within our Group which includes the procedures for the reporting, receiving information relating to and investigation of fraud cases, setting out responsibilities and penalties for fraud, and established channels for reporting fraud cases.

## BUSINESS

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, they have not engaged in, and have not been aware of, any bribery, corruption or fraudulent practise by our Directors, employees and distributors. Our Directors further confirm that during the Track Record Period and up to the Latest Practicable Date, as far as they are aware, our Group has not been subject to any anti-corruption claims or investigations by the relevant authorities. As such, our Directors consider that our anti-corruption policies and procedures and relevant internal control measures have been sufficient and effective to ensure our compliance with the relevant anti-corruption laws and regulations as well as to prevent the occurrence of bribery, corruption or fraudulent practise by our Directors and employees.

### Risk Management Measures

We have established the following measures and structures to manage our risks:

- our Board carries out a thorough examination of material risks associated with any material business decision before approving such decision;
- our Directors and senior management keep track of the day-to-day operations and monitor any associated operational risks of our Group. They are responsible for evaluating potential market risks related to fluctuations in industrial environment and market variables, identifying irregularities in connection with operational, credit and market risks, and formulating policies and resolutions to mitigate or resolve these risks. For details of the qualification and experience of our Directors and senior management, please see the section headed "Directors and Senior Management" in this document;
- our audit committee reviews the internal control system and procedures for the compliance with the requirements prescribed by the applicable laws, rules and regulations;
- as part of the preparation for [REDACTED], our Directors have received training on their responsibilities as directors of a Hong Kong [REDACTED] company, including their fiduciary duties to act in the best interest of our Group. We will also continue to arrange various trainings to be provided by Hong Kong legal advisers for our Directors, senior management and employees on the Listing Rules, including but not limited to aspects related to corporate governance and connected transactions;
- we have appointed Southwest Securities (HK) Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules to ensure that, among other things, we are properly guided and advised as to compliance with the Listing Rules upon [REDACTED]; and
- we provide training to our employees in order to enhance their industry knowledge and to encourage an all-embracing culture of risk management ensuring that all employees are aware of and responsible for managing risks.

## BUSINESS

### TWO INVOICE SYSTEM

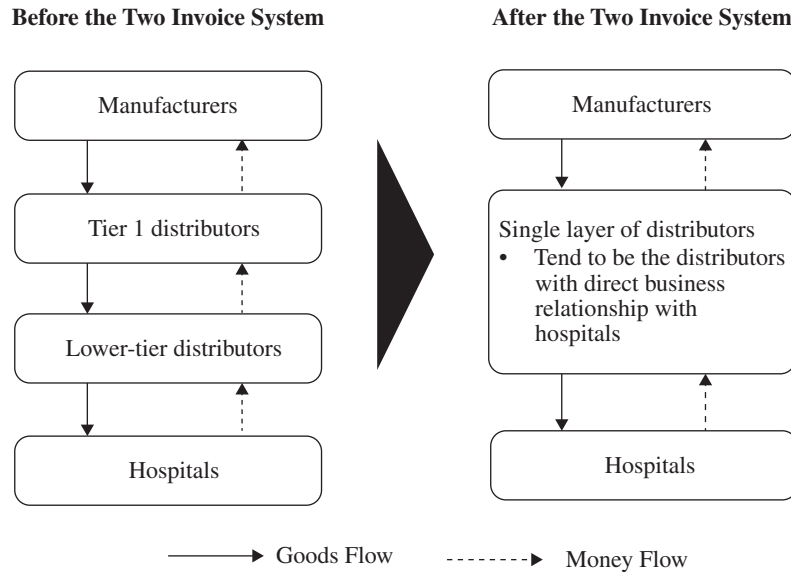
#### Background

As part of the measures for the PRC healthcare system reform, the State Council together with seven other central government departments (including the NHFPC and the State Administration of Food and Drug) jointly issued the Notice on Opinions on the Implementation of the Two Invoice System in Drug Procurement by Public Medical Institutions (for Trial Implementation) (《關於在公立醫療機構藥品採購中推行兩票制的實施意見(試行)》) on 26 December 2016. Pursuant to the above notice, public medical institutions are required to implement the “Two Invoice System” for drug procurements gradually and encourage other medical institutions to promote the same with an aim to promote the “Two Invoice System” across the nation by 2018. The aim of the “Two Invoice System” is to only allow a maximum of two invoices to be issued in the value chain with the first invoice to be issued by manufacturers to distributors and the second one to be issued by distributors to hospitals and healthcare institutions.

On 5 March 2018, NHFPC together with five other central government departments jointly issued the Notice on Consolidating the Achievements of Cancelling Drug Markups and Deepening Comprehensive Reforms in Public Hospitals (《關於鞏固破除以藥補醫成果持續深化公立醫院綜合改革的通知》), which stipulates the implementation of the centralised purchase of high value medical consumables, and that the “Two Invoice System” in relation to high-value medical consumables shall be gradually implemented. According to the General Office of the State Council issued the Notice on Printing and Distributing the Reform Plan for the Management of High-value Medical Consumables (《關於印發〈治理高值醫用耗材改革方案〉的通知》) issued on 19 July 2019, high-value medical consumables refer to the medical consumables that are directly used for human bodies, and are strictly required for safety, and are in great clinical demand and priced relatively high, and can impose heavy burdens on patients for affording them. On 30 September 2019, ten local government departments of Shandong Province including Health Committee of Shandong Province (山東省衛生健康委員會) (the “**Health Committee**”) issued the Notice on “Two Invoice System” Implementation Plan in Medicines Procurement by Public Medical Institutions in Shandong Province (《關於印發〈山東省公立醫療機構藥品採購推行“兩票制”實施方案〉的通知》), which stipulates that all public medical institutions in Shandong Province shall implement the “Two Invoice System” in the procurement of drugs from 30 October 2019. As at the Latest Practicable Date, according to the Health Committee, Shandong Province was yet to implement the “Two Invoice System” in the procurement of high-value or low-value medical consumables and it has no concrete plan to implement the “Two Invoice System” on the procurement of medical consumables in Shandong Province. As advised by our PRC Legal Advisers, the Health Committee is the competent authority to consult with in respect of the implementation of the “Two Invoice System” in Shandong Province. Please refer to the section headed “Regulatory Overview — Two Invoice System” in this document for more details on the implementation of the “Two Invoice System” in the PRC.

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For illustration purposes only, set out below is the comparison of distribution chain of medical devices and medical consumables before and after the implementation of the “Two Invoice System” on the assumption that the “Two Invoice System” will be applied to medical devices and medical consumables in Shandong Province in the future:



**Potential impacts of the “Two Invoice System” on our business operation**

The following analysis on the potential impact of the “Two Invoice System” on our business operation is based on the assumption that the “Two Invoice System” is fully implemented to our medical imaging film products.

Except for our self-branded products and our provision of maintenance services, we sourced medical dry laser films and self-service film output printers, from Honghe Group, the Tier-1 distributor of the Medical Imaging Products Manufacturer in Shandong Province, as at the Latest Practicable Date. During the Track Record Period, our revenue attributable to the sale of medical imaging film products of the Medical Imaging Products Manufacturer were approximately RMB114.8 million, RMB131.0 million, RMB142.1 million and RMB63.4 million, respectively, representing approximately 89.1%, 75.8%, 72.1% and 68.4% of the total revenue of our sale of medical imaging film products business and approximately 81.5%, 71.1%, 67.3% and 64.3% of our total revenue for the same periods, respectively.

If the “Two Invoice System” is implemented to our medical dry laser films and self-service film output printer, sale from the Medical Imagine Film Products Manufacturer to Honghe Group are likely to be counted as the first invoice, and sale from Honghe Group to our Group will likely to be counted as the second invoice. Therefore, in the event that the “Two Invoice System” applies to the medical imaging film products industry in Shandong Province, our sale of medical imaging film products from the Medical Imaging Products Manufacturer will possibly to be counted as the third invoice which is not permitted under the “Two Invoice System”, and we may have to discontinue such mode of business operation.

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However, as confirmed by the Health Committee in November 2021, (i) it does not have a concrete plan to implement the “Two Invoice System” on the procurement of medical consumables in Shandong Province; (ii) our medical imaging films are classified as low-value medical consumables; (iii) our self-service film output printers and medical image printers are not classified as medical consumables; (iv) our software is classified as medical software and is not classified as medical consumables and (v) medical image data distribution system and CDs are not classified as medical devices nor consumables. As advised by our PRC Legal Advisers, the Health Committee is the competent authority to consult with in respect of the implementation of the “Two Invoice System” in Shandong Province.

As such, as at the Latest Practicable Date, none of our medical imaging film products and medical imaging cloud services is subject to the “Two Invoice System” in Shandong Province. As at the Latest Practicable Date, our Directors confirmed that we have not suffered any material financial loss due to the implementation of the “Two Invoice System”.

### **Measures to mitigate the adverse impacts from the implementation of the “Two Invoice System” in Shandong Province**

We will adopt the following measures to mitigate the adverse impacts that may result from the implementation of the “Two Invoice System” to the medical imaging products industry in Shandong Province:

- (i) In the event of the full implementation of the “Two-Invoice System” in Shandong Province, Medical Imaging Products Manufacturer confirmed that we will be engaged as its Tier-1 distributor without imposing any non-competition clause on us as Medical Imaging Products Manufacturer satisfied itself that our Group have fulfilled the following requirements to be its Tier-1 distributor during the Track Record Period and up to the Latest Practicable Date: (a) a legal entity with a registered capital of RMB10 million; (b) maintaining a Class II Medical Device Business Registration Certificate (第二類醫療器械經營備案憑證) and Class III Medical Device Business Registration Certificate (第三類醫療器械經營許可證); (c) having an extensive distribution network; (d) maintaining an established and good business relationship with the end customers; (e) obtaining an annual revenue which should be more than or equal to RMB50 million; (f) having sufficient internal source of fund; (g) having sufficient storage capacity; and (h) complying with all relevant laws and regulations and having no material non-compliance record in the past.

With regard to items (d) and (g) above, according to the Medical Imaging Products Manufacturer, Tier-1 distributors should be considered as having “an established and good business relationship with the end customers” if they have maintained over five years of uninterrupted business relationship with its major customers. In terms of “sufficient storage capacity”, the Medical Imaging Products Manufacturer usually requires its Tier-1 distributors to maintain an inventory level of finished goods of approximately three months.

## BUSINESS

Our Directors believe that our Group has maintained an established and good business relationship with its end customers, taking into consideration: (i) our Group’s years of business relationship with our top five customers ranges from five to six years; (ii) as confirmed by our top ten customers for the three financial years ended 31 December 2021 and the six months ended 30 June 2022, they intend to continue the business cooperation with our Group in the event of the implementation of the “Two-Invoice System” in Shandong Province; and (iii) as confirmed by our Directors, as at the Latest Practicable Date, there was no material breach of sales agreement with our customers, and our Group had no record of any return of products due to quality defects. Our Group also has not received any product liability claims or complaints from customers in relation to the quality of products which had materially or adversely affected our business during the Track Record Period.

Our Directors also believe that our Group has sufficient storage capacity by being able to maintain an inventory level of finished goods of approximately three months, taking into consideration: (i) our Group owns a factory and warehouse in Jinan with an approximate gross floor area of 1,019.34 sq.m. and an approximate height of 3.4 m; (ii) the length, width, height of a standard box of 500 pieces of 14x17 inch medical dry laser films of the Medical Imaging Products Manufacturer, being the most common type of medical dry laser films sold by our Group during the Track Record Period, is 56cm, 46cm and 22cm, respectively; (iii) the sales volume of the medical dry laser films of the Medical Imaging Products Manufacturer during the Track Record Period was approximately 8,080,000 pieces, 8,712,000 pieces, 9,809,000 pieces and 4,543,000 pieces, respectively; and (iv) the estimated volume of three months inventory level is approximately 282.2 m<sup>3</sup>. Therefore, our Directors believe that our Group has a sufficient storage capacity for the inventory level of goods required to be maintained by our Group.

Further, according to the Medical Imaging Products Manufacturer, our Group has to follow the procedural requirements below to become its Tier-1 distributor: (a) our Group to submit an application for becoming a Tier-1 distributor of Medical Imaging Products Manufacturer in Shandong Province and Medical Imaging Products Manufacturer to verify the materials submitted; (b) Medical Imaging Products Manufacturer to conduct a background search of our Group and to review the past historical transaction records of our Group and the evaluation by end customers regarding our Company’s services and products; (c) our Group to negotiate the terms and conditions of the distributorship agreement with Medical Imaging Products Manufacturer including minimum purchase targets; (d) Medical Imaging Products Manufacturer to go through the internal approval procedures; and (e) Medical Imaging Products Manufacturer to issue the authorisation letter to our Company and Medical Imaging Products Manufacturer and our Company to sign the Tier-1 distributorship agreement. Our Directors believe that there are no impediments to follow the aforementioned procedures.

## BUSINESS

- (ii) Before October 2017, we were the Tier-1 distributor of the Medical Imaging Products Manufacturer. Our Directors confirmed that subsequently, we initiated the termination of our distributorship with Medical Imaging Products Manufacturer in order to maintain flexibility in not having to meet the minimum purchase target as a Tier-1 distributor and to focus on the development of our self-branded products. Taking into account that (i) the products of Medical Imaging Products Manufacturer are not supplied to the existing Tier-1 distributor in Shandong Province (i.e. Honghe Group) on an exclusive basis; (ii) our previous relationship and cooperation with the Medical Imaging Products Manufacturer; (iii) our distribution network in Shandong Province; and provided that we are willing to undertake the minimum purchase targets to be negotiated with the Medical Imaging Products Manufacturer, our Directors believe that we can consider and are capable to act as the Tier-1 distributor of Medical Imaging Products Manufacturer in the event of the full implementation of the “Two Invoice System” in Shandong Province. Our Directors confirm that we achieved the minimum purchase targets throughout the Tier-1 distributorship arrangement with Medical Imaging Products Manufacturer and there are no disputes or disagreements between our Group and the Medical Imaging Products Manufacturer since the date of commencement of our relationship and up to the Latest Practicable Date.

According to the Medical Imaging Products Manufacturer, it will impose minimum purchase targets on us if we are re-engaged as its Tier-1 distributor. As at the Latest Practicable Date, the details of the minimum purchase targets cannot be ascertained because the targets will be changed from time to time and is subject to market conditions. Despite this, the Medical Imaging Products Manufacturer confirmed that our Group’s actual yearly/periodic purchase volume of 14” x 17” medical dry laser films in each of the three years ended 31 December 2021 and the six months ended 30 June 2022 satisfied its minimum purchase targets in relation to the medical dry laser films.

Given (i) the fulfilment of the minimum purchase targets as a Tier-1 distributor of Medical Imaging Products Manufacturer in the past; (ii) our Group’s extensive distribution network; and (iii) the fact that our Group has been distributing its products since inception, our Company believes that there is no impediment for us to meet such targets.

In case our Group fails to fulfil the minimum purchase targets, except for losing the entitlement to be provided with rebates in that year, Medical Imaging Products Manufacturer confirmed that our Group can still remain as its Tier-1 distributor in the event of the full implementation of the “Two Invoice System” in Shandong Province.

Our Directors confirm that there will be no material changes in the pricing and gross profit margins for our Group’s products if we are re-engaged as a Tier-1 distributor of the Medical Imaging Products Manufacturer.

- (iii) We will develop our direct business relationship with the other international manufacturers, which principally engage in the manufacturing of medical dry laser films and self-service film output printers instead of sourcing products through their distributors by actively participating in trade fairs and exhibitions. Please refer to the paragraph headed “Our Business Strategies — Continue to promote our brands and increase market awareness by participating in exhibitions” for details.



## BUSINESS

- (iv) We will further develop our self-branded products business to strengthen our position as a domestic medical imaging products supplier in Shandong Province. During the Track Record Period, our revenue attributable to the medical imaging film products under our brand were approximately RMB11.3 million, RMB32.2 million, RMB54.8 million and RMB29.3 million, respectively, representing approximately 9%, 19%, 28% and 32% of our revenue under the medical imaging film products business segment, respectively, which exhibited an increasing trend.
- (v) Given the expected growth in the medical imaging cloud services market, we are actively developing our business segment of medical imaging cloud services in order to diversify the risks of the implementation of the “Two Invoice System”. For further details on the development of our medical imaging cloud services, please refer to the paragraph headed “Our Business Strategies — Enhance the delivery of our medical imaging cloud services through strategic acquisition, obtaining the medical device registration certificate and upgrade of our hardware and software”.

### **Our Group’s sales to hospitals and healthcare institutions through deliverers and “Two-Invoice System”**

As advised by our PRC Legal Advisers, relevant authorities do not give a clear direction on the position of the deliverers in the event of the full implementation of the “Two-Invoice System” and thus, it remains unclear on whether the sale of medical imaging film products from deliverers to hospitals and healthcare institutions will be counted as the third invoice.

As confirmed by Medical Imaging Products Manufacturer, given the solid and amiable business relationship with our Group and our Group’s extensive distribution network, MIPM confirmed that our Group will be engaged as its Tier-1 distributor in the event of full implementation of the “Two-Invoice System” in Shandong Province, subject to the fulfilment of the general and administrative terms and conditions, in order to maximise its own benefits. As such, our Group will directly procure the medical imaging film products from Medical Imaging Products Manufacturer and the sale of medical imaging film products from Medical Imaging Products Manufacturer to our Group will be counted as the first invoice.

Based on the above,

- (i) if the sale of medical imaging film products from deliverers to hospitals and healthcare institutions is not counted as the third invoice, our PRC Legal Advisers are of the view that our Group’s sales to hospitals and healthcare institutions through deliverers would be in compliant with the “Two-Invoice System”; and
- (ii) if the sale of medical imaging film products from deliverers to hospitals and healthcare institution is counted as the third invoice, hospitals and healthcare institutions will not procure medical imaging film products through deliverers but directly from the Group based on (a) the interviews with the top ten end customers during the Track Record Period that they will continue to maintain business relationship directly with our Group in the event of full implementation of the “Two-Invoice System” and (b) our Directors confirm that our Group would comply with the “Two-Invoice System” requirement to maintain business relationship with our remaining customers in the event of full implementation of the “Two-Invoice System”. In light of the above, our PRC Legal Advisers are of the view that our Group’s sales to hospitals and healthcare institutions would be in compliant with the “Two Invoice System”.

## BUSINESS

In any event, our PRC Legal Advisers are of the view that under both circumstances (i.e. whether the sale of medical imaging film products from deliverers to hospitals and healthcare institutions will or will not be counted as the third invoice), based on (a) the interviews with the top ten end customers during the Track Record Period; (b) our Directors confirm that our Group would comply with the “Two-Invoice System” requirement to maintain business relationship with our remaining customers in the event of full implementation of the “Two-Invoice System”; and (c) as confirmed by Medical Imaging Products Manufacturer, our Group’s sales to hospitals and healthcare institutions would be in compliant with the “Two-Invoice System”. In addition, our Directors are of the view that our Group will not be eliminated from the value chain and hence our Group’s business operation will not be adversely affected in material respects.

### **Competition with Honghe Group**

In the event that we become a Tier-1 distributor of the Medical Imaging Products Manufacturer in Shandong Province and if the Medical Imaging Products Manufacturer does not engage any new Tier-1 distributor in Shandong Province, there will be a total of two Tier-1 distributors of the Medical Imaging Products Manufacturer in Shandong Province, namely our Group and Honghe Group. Our Directors believe that our Group is capable to compete with Honghe Group taking into consideration:

- (i) our customers were sourced independently without the assistance of Honghe Group;
- (ii) as confirmed by Honghe Group, the purchase by our Group from Honghe Group accounted for approximately 50% of Honghe Group’s total sales revenue and our Group ranked the first among the customers of Honghe Group in terms of its sales revenue during the Track Record Period;
- (iii) the extensive distribution network of our Group in Shandong Province. Over years of operations, we have accumulated a solid customer base and our customers covered, 43 Grade III hospitals, 30 Grade II hospitals and 20 Grade I hospitals in Shandong Province, accounting for approximately 20.7% Grade III hospitals, 4.1% Grade II hospitals and 1.9% Grade I hospitals in Shandong Province, as at the Latest Practicable Date;
- (iv) our solid and amicable business relationship with customers; and
- (v) our familiarity with the procurement procedures implemented by the hospitals and healthcare institutions in Shandong Province.

**BUSINESS**

**Differences between being a Tier-1 and Tier-2 distributor of the Medical Imaging Products Manufacturer**

The table below sets forth a comparison of our Group’s being a Tier-1 and Tier-2 distributor of the Medical Imaging Products Manufacturer in terms of business operation, liquidity and financial performance such as inventory turnover and profit margin.

	<b>Medical Imaging Products Manufacturer</b>	
	<b>Tier-1 distributor</b>	<b>Tier-2 distributor</b>
<b>Business operation</b>	<ul style="list-style-type: none"> <li>● Our Group directly sources medical dry laser films and self-service film output printers from the Medical Imaging Products Manufacturer</li> <li>● Our Group will deliver our medical imaging film products of the Medical Imaging Products Manufacturer upon receipt of purchase order from customers</li> </ul>	<ul style="list-style-type: none"> <li>● Our Group sources medical dry laser films and self-service film output printers from Honghe Group</li> <li>● Our Group will deliver our medical imaging film products of the Medical Imaging Products Manufacturer upon receipt of purchase order from customers</li> </ul>
<b>Liquidity</b>	Since the payment terms offered by the Medical Imaging Products Manufacturer and Honghe Group is prepayment, there is no material differences on the liquidity of our Group	
<b>Financial performance</b>		
<i>Inventory turnover</i>	No material differences	

**BUSINESS**

**Medical Imaging Products Manufacturer**

**Tier-1 distributor**

**Tier-2 distributor**

***Profit margin***

- We are required to meet the minimum purchase target as specified by the Medical Imaging Products Manufacturer. If we are able to fulfil the yearly minimum purchase targets, rebates will be provided in the form of (i) a discount on the price of medical imaging films for future purchase and/or (ii) rewards as agreed by our Group and the Medical Imaging Products Manufacturer
  - The rate of rebate may be higher than the rate of rebate offered by Honghe Group, subject to the negotiation with the Medical Imaging Products Manufacturer. Thus, the Group may secure a higher profit margin as compared to being a Tier-2 distributor
  - Our Group may offer the products of the Medical Imaging Products Manufacturer to a Tier-2 distributor at a markup.
- We are required to meet the minimum purchase target as specified by Honghe Group. If we are able to fulfil the yearly minimum purchase targets, rebates will be provided in the form of (i) self-service film output printer and (ii) a discount on the price of medical imaging films for future purchase
  - The rate of rebate may be lower than the rate of rebate offered by the Medical Imaging Products Manufacturer. Thus, the Group may have a lower profit margin as compared to being a Tier-1 distributor
  - Our Group did not sell any products of the Medical Imaging Products Manufacturer to a lower-tier distributor during the Track Record Period.