*You should read the following discussion and analysis of our Group's financial condition and results of operations in conjunction with our audited consolidated financial statements as at and for each of the three years ended 31 December 2021 and the six months ended 30 June 2022, including notes thereto set forth in the Accountants' Report included as Appendix I to this document (the ''**Consolidated Financial Information**''). Our Consolidated Financial Information had been prepared in accordance with HKFRSs. You should read the whole Accountants' Report and not merely rely on the information contained in this section.*

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

OVERVIEW

We are a medical imaging solutions provider, principally engage in providing medical imaging film products and medical imaging cloud services in Shandong Province.

We have been the distributors of international medical imaging film products 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 the Medical Imaging Products Manufacturer constituted approximately 89%, 76%, 72% and 68% of our revenue under the medical imaging film products business segment during each of 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. Except for the minimal revenue generated from the sale of medical imaging film products of another international brand, our Group only distributed medical imaging film products of the Medical Imaging Products Manufacturer.

Having established a market position in the medical imaging film products market in Shandong Province and by riding on the increasing demand for medical imaging 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.

During the Track Record Period, our products and services were ultimately provided to hospitals and healthcare institutions either directly or through deliverers. Our relationship with our deliverers is deemed as a principal-agent relationship. Accordingly, under HKFRS 15, the relevant transactions through our deliverers are accounted for as sales to hospitals and healthcare institutions rather than sales to deliverers.

For each of 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.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our financial condition, results of operations and the period-to-period comparability of our financial results are principally affected by the following factors:

The level of activity and growth in the medical imaging industry in Shandong Province

Our customers are generally hospitals and healthcare institutions in Shandong Province. During the Track Record Period, all of our revenue were derived from our sales in Shandong Province. As our medical imaging products are principally sold in Shandong Province, the demand for our products and services are predominantly dependent on the level of activity and growth in the medical imaging industry in Shandong Province, which in turn depends on factors such as general economic conditions, government policy, GDP growth, fixed asset investment, consumer confidence, inflation and demographic trends in Shandong Province. Our lack of geographical diversity exposes us to risks associated with fluctuations in the political and economic conditions of Shandong Province.

We have historically benefited from the growth in the economy of Shandong Province. We cannot assure you that the GDP, fixed asset investment or the demand for medical imaging products in Shandong Province will continue to grow at historical rates, or at all. Any slowdown in the growth of Shandong Province's economy or a downturn in the medical imaging industry in Shandong Province could affect the demand for our products, which in turn may adversely affect our profitability and financial conditions.

Our relationship with hospitals and healthcare institutions and expansion of our customers' coverage

The success of the business and growth of our Group depends on our ability to maintain business relationship with our customers and to further strengthen our customers' coverage.

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. 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.

If we fail to maintain our relationship with hospitals and healthcare institutions or if we fail to expand our customer coverage, our revenue and profitability may be materially and adversely affected.

Fluctuation in cost of our raw materials and reliance on our largest supplier

We believe our strong ties with our suppliers is one of the key factors of our success as it serves to ensure a reliable supply of high quality raw materials and equipment which we may offer to our customers. For each of the three years ended 31 December 2021 and the six months ended 30 June 2022, our cost of sales amounted to approximately RMB94.4 million, RMB122.9 million, RMB135.4 million and RMB59.0 million, accounting for approximately 67.0%, 66.6%, 64.1% and 59.8% of our total revenue for the same period, respectively.

Our cost of sales mainly comprised the cost of our purchase of medical imaging films and disc from our suppliers, which represented approximately 95.5%, 94.2%, 96.4% and 95.5% of our total cost of sales for the three years ended 31 December 2021 and the six months ended 30 June 2022, respectively. Our abilities to manage our cost of raw materials and to maintain good relationship with our suppliers are significant factors affecting our results of operations.

In addition, 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 RMB36.9 million respectively, representing approximately 83.1%, 77.0%, 73.8% and 73.0% of our Group's total purchase for the relevant period, respectively. There is no assurance that we are able to maintain business relationship with Honghe Group or there may be unfavourable changes in our current arrangement, such as a substantial reduction of its volume of supply to us or an unexpected termination of its relationship with us for any reason. If Honghe Group terminates or does not renew the agreement with us, we cannot assure that we can continue to source the aforesaid medical imaging products from it. Accordingly, our performance and financial results would be materially and adversely affected.

Also, if the distributorship relationship between the Medical Imaging Products Manufacturer and Honghe Group is terminated for any reason which renders Honghe Group unable to provide any medical imaging film products manufactured by the Medical Imaging Products Manufacturer to us, our performance and financial results would be materially and adversely affected.

The prices of our products are determined based on a cost-plus pricing model in general with the markup after arm's length negotiation with the customers and as such, historically, we have generally been able to pass on fluctuations in costs of raw materials to our customers. However, changes in other components of our cost of sales which we are unable to pass on to our customers may adversely affect our profitability.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the cost of medical imaging films on our profit after tax during the Track Record Period, assuming all other factors remain unchanged.

Hypothetical fluctuations in our cost of medical imaging film products	–10%	–5%	–2%	–1%	1%	2%	5%	10%
Increase/(decrease) in profit and total comprehensive income for the year(Note)	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the six months ended 30 June 2022	4,227	2,114	846	423	(423)	(846)	(2,114)	(4,227)
For the year ended 31 December 2021	9,447	4,724	1,890	945	(945)	(1,890)	(4,714)	(9,447)
For the year ended 31 December 2020	9,149	4,574	1,830	915	(915)	(1,830)	(4,574)	(9,149)
For the year ended 31 December 2019	7,122	3,560	1,424	712	(712)	(1,424)	(3,561)	(7,122)

Note: Our profit and total comprehensive income for the year amounted to approximately RMB22.3 million, RMB29.0 million, RMB23.1 million and RMB15.4 million for each of the three years ended 31 December 2021 and the six months ended 30 June 2022, respectively.

Regulatory environment in China

The medical industry is highly regulated. We are subject to various regulations which govern different aspects of our operations, including licencing and certification requirements and procedures for manufacturers of medical imaging products, operating and safety standards, as well as environmental protection regulations. Any change in the applicable laws, regulations or standards may prevent or restrict us from conducting certain aspects of our current business and may adversely affect our results of operation and financial position.

In addition, the regulatory framework for the medical imaging industry in the PRC is constantly evolving, and we expect it will continue to evolve. We cannot predict the likelihood, nature or extent of regulatory changes that may arise from existing or future legislation in the PRC. Furthermore, if the interpretation or implementation of the existing laws and regulations changes or new regulations come into effect, we may be required to obtain additional permits, licences or certificates. There is no assurance that we will respond successfully to such changes in a timely manner. Such changes may also result in increased compliance costs or prevent our successful development, manufacture or commercialisation of products in the PRC, which would adversely affect our business, financial condition and results of operations.

Furthermore, the introduction of new services and products, particularly in relation to our medical imaging cloud services, may require us to comply with additional, yet undetermined, laws and regulations. Compliance may require obtaining appropriate permits, licences or certificates as well as expending additional resources to monitor developments in the relevant regulatory environment. The failure to adequately comply with these future laws and regulations may delay, or possibly prevent, some of our products or services from being offered to users, which may have a material adverse effect on our business, financial condition and results of operations.

Our ability to continue developing new products and services

Our future growth depends upon our ability to develop and provide new and improved products and services which meet the evolving requirements of our customers, and our ability to bring these products and services to the market in a timely manner. The research and development of new and improved products and services is a complex process requiring, among other factors, the accurate anticipation of the technological and market trends. New products and services, or refinements and improvements of existing products and services, may have technical failures, which could cause delays in their introduction. Such products and services may have higher implementation costs than we originally expect and such costs may not be easily passed onto our customers. Any failure of these products and services could have a material adverse effect on our financial performance and our reputation. There is also no assurance that any research and development efforts undertaken or to be undertaken by us would result in the successful development of any new or improved products and services or that any such new or improved products and services will meet market requirements and achieve market acceptance. In addition, any failure in our research and development could have an adverse impact on the business and prospects of our Group.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Pursuant to the reorganisation, as more fully explained in paragraph headed "Reorganisation" in the section headed "History, Reorganisation and Corporate Structure" in this Document, the Company became the holding company of the companies now comprising the Group on 11 December 2020. As the reorganisation only involved insertion of a new holding company at the top of an existing holding company and has not resulted in any change of economic substance, the historical financial information has been prepared on a consolidated basis by applying the principles of merger accounting as if the reorganisation had been completed at the beginning of the relevant periods. Accordingly, no adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the reorganisation. All intra-group transactions and balances have been eliminated on combination.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Accountants' Report in Appendix I to this document sets forth certain significant accounting policies in Note 2, which are important for understanding our financial condition and results of operations.

Some of our accounting policies involve significant accounting judgements and estimates that are discussed in Note 3 of "Appendix I — Accountants' Report". Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors by our management, including expectations of future events that are believed to be reasonable under the circumstances. We make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Please refer to Note 3 of "Appendix I — Accountants' Report".

Revenue recognition

Revenue from contracts with customers

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

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

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

(a) Sales of medical imaging film products

Revenue from sales of goods primarily arises from sales of medical imaging film products, which is recognised at the point in time when control of the products is transferred to the customer, generally on delivery of the products.

(b) Provision of medical imaging cloud services

The Group provides integrated medical imaging cloud services together with the sales of medical imaging film products to a customer.

Revenue from medical imaging cloud services is recognised over time during the service period.

Impairment of financial assets

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

General approach

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

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 to 365 (up to the customers) days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

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

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

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

Simplified approach

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

Property, plant and equipment and depreciation

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

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

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

Buildings	5%
Leasehold improvements	Over the shorter of the lease term and 20%
Plant and machinery	12.5% to $33^1/_3$%
Furniture and fixtures	20%
Motor vehicles	25%

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

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

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Inventories

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

DESCRIPTION OF CERTAIN ITEMS FROM CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The following table sets forth a summary of the consolidated statements of profit or loss and other comprehensive income for the periods indicated. This information should be read together with our Consolidated Financial Information and related notes, which have been prepared in accordance with HKFRSs, and set out in Appendix I to this document. Our operating results in any period are not necessarily indicative of results that may be expected for any future period.

Consolidated statements of profit or loss and other comprehensive income of our Group for the Track Record Period

	Year ended 31 December			Six months ended 30 June	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Revenue	140,825	184,435	211,076	106,728	98,621
Cost of sales	(94,410)	(122,860)	(135,377)	(70,340)	(58,995)
Gross profit	46,415	61,575	75,699	36,388	39,626
Other income and gains	146	745	1,306	1,283	1,640
Selling and distribution expenses	(11,924)	(16,957)	(24,943)	(11,624)	(12,253)
Administrative expenses	(3,528)	(3,878)	(17,849)	(9,246)	(6,552)
Research and development costs	(1,359)	(1,185)	(396)	(206)	(185)
Impairment losses on trade receivables	(104)	(122)	73	(139)	(124)
Finance costs	(51)	(789)	(597)	(313)	(658)
Other expenses	—	(386)	(236)	(110)	—
Profit before tax	29,595	39,003	33,057	16,033	21,494
Income tax expenses	(7,271)	(9,960)	(9,989)	(4,866)	(6,092)
Profit and total comprehensive income for the year/period	22,324	29,043	23,068	11,167	15,402
Attributable to:					
Owners of the parent	22,324	29,043	22,935	11,095	15,316
Non-controlling interests	—	—	133	72	86
	22,324	29,043	23,068	11,167	15,402

Revenue

Our Group's revenue is generated from the sales of medical imaging film products and the provision of medical imaging cloud services. For each of 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.

Revenue by business segment

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)* (Unaudited)	*(%)*	*(RMB'000)*	*(%)*
Sales of medical imaging film products	128,909	91.5	172,795	93.7	196,926	93.3	100,565	94.2	92,770	94.1
Medical imaging cloud services	11,916	8.5	11,640	6.3	14,150	6.7	6,163	5.8	5,851	5.9
Total	140,825	100.0	184,435	100.0	211,076	100.0	106,728	100.0	98,621	100.0

Our revenue generated from the sales of medical imaging film products increased from approximately RMB128.9 million for the year ended 31 December 2019 to approximately RMB172.8 million for the year ended 31 December 2020, primarily due to (i) the increased demand of medical imaging film products along with the growth in the medical imaging industry; (ii) the increase in clinical CT diagnosis brought by the outbreak of COVID-19, which created more demand on our thermal and medical dry laser films; and (iii) our focus on self-branded thermal films, which recorded a substantial increase in sales volume. 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. In addition, as Jining No.1 Hospital has begun its expansion plan of a new hospital zone in Shandong in around late 2018, there is an increasing demand from Jining No.1 Hospital on our medical imaging film products along with the continuing development of the new hospital zone. Along with the growth in line with the market, the increase in revenue from Jining No.1 Hospital contributed relatively significant to our increase in sales of medical imaging film products for the year ended 31 December 2020 as compared with the year ended 31 December 2019.

Our revenue generated from the sales of medical imaging film products further increased from approximately RMB172.8 million for the year ended 31 December 2020 to approximately RMB196.9 million for the year ended 31 December 2021, primarily due to the increased demand of medical imaging film products from our customers, in particular the significant increase in sales of thermal films which is due to our focus on our self-branded thermal films. 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. In particular, Shandong Hospital and Shandong Second Hospital have increased their purchases from us along with the growth in the healthcare industry during 2021.

Our revenue generated from the sale of medical imaging film products decreased from approximately RMB100.6 million for the six months ended 30 June 2021 to approximately RMB92.8 million for the six months ended 30 June 2022, primarily due to the decrease in average selling price of our medical dry laser film as (i) two of our five largest customers, namely 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 price than the model they procured in the past (namely DVB model); and (b) have been distributed to our customers since late May 2021; and (ii) some of our customer 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 which were sold at a lower unit price.

Our revenue generated from the medical imaging cloud services decreased slightly from approximately RMB11.9 million for the year ended 31 December 2019 to approximately RMB11.6 million for the year ended 31 December 2020. Even though there was an anticipation of an increase in demand of medical imaging cloud services during COVID-19, (i) according to CIC, medical imaging cloud services is still considered to be a new form of services and the use of such services is strongly encouraged by government policies, such as ''The Plan of Construction of Demonstration Province for ''Internet + Healthcare'' (2019–2020)'' (山東省推進「互聯網+醫療健康」示範省建設行動計劃 (2019–2020年)), which encourages the medical institutions' use of digital medical imaging films and (ii) in order to quickly penetrate into the market and occupy a certain share in the Shandong market before our competitors, we encouraged the use of our medical imaging cloud services by adding a lower premium rate to the unit selling price of our medical imaging cloud products under our existing pricing policies. As confirmed by CIC, the provision of medical imaging cloud services involves the physical set up of a hard drive in customers' premises and customers are less inclined to change its services provider once the hardware is set up. Hence, our early entrance to the market will offer us a competitive edge over our competitors.

Our revenue generated from the medical imaging cloud services increased to approximately RMB14.2 million for the year ended 31 December 2021, which was in line with the growth of market. According to CIC, COVID-19 has promoted the development of remote diagnosis. As an important part of remote diagnosis, the demand for medical imaging cloud platforms has increased since the outbreak of COVID-19. In addition, such increase was mainly attributable to the increase in total storage volume from existing customers during the year.

Our revenue generated from the medical imaging cloud service slightly decreased from approximately RMB6.2 million for the six months ended 30 June 2021 to approximately RMB5.9 million for the six months ended 30 June 2022. As we provide the medical imaging cloud services in the course of the sale of medical imaging film, the decrease in revenue from medical imaging cloud services was in line with the decrease in revenue of our medical imaging film products.

Revenue by film products

The following table sets forth the revenue, sales volume, average selling prices and selling price range of our major products, namely medical dry laser film, thermal film and medical printing film, for the periods indicated:

	Year ended 31 December												Six months ended 30 June							
	2019				2020				2021				2021				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	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)*	*(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	75,386	5,073	14.9	6.2–18.1	66,569	4,854	13.7	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	24,189	2,185	11.0	4.0–16.4	25,243	2,250	11.2	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	928	175	5.3	2.9–18.1	809	151	5.4	2.9–17.6
Total	127,138	9,312			165,675	12,167			196,361	14,913			100,503	7,433			92,621	7,255		

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.

The sales volume of our medical dry laser film increased steadily throughout the Track Record Period which was in line with the growth of medical imaging scan volume in China and Shandong province. The sales volume of our thermal film demonstrated an increasing trend, which is primarily due to our focus on our self-branded thermal film. Our sales volume of medical printing film remained relatively stable during the Track Record Period.

The average selling price of our medical dry laser film slightly increased from approximately RMB14.2 per piece for the year ended 31 December 2019 to approximately RMB15.0 per piece for the year ended 31 December 2020 mainly because we sold larger amount of 14x17 inch medical dry laser film which had a higher average selling price during the year. The average selling price of our medical dry laser film slightly decreased from approximately RMB15.0 per piece for the year ended 31 December 2020 to approximately RMB14.4 per piece for the year ended 31 December 2021 mainly because we commenced to sell two models of medical dry laser films (namely, AMB and DVS model) and are at a lower selling prices than the model they procured in the past, since late May 2021. The average selling price of our medical dry laser film decreased from approximately RMB14.9 per piece for the six months ended 30 June 2021 to approximately RMB13.7 per piece for the six months ended 30 June 2022 as (i) two of our five largest customers, namely 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 price than the model they procured in the past (namely DVB model); and (b) have been distributed to our customers since late May 2021; and (ii) some of our customer 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 which were sold at a lower unit price.

The average selling price of our thermal film remained relatively stable at approximately RMB10.5 per piece for the year ended 31 December 2019 to approximately RMB10.3 per piece for the year ended 31 December 2020. The average selling price of our thermal film slightly increased from approximately RMB10.3 per piece for the year ended 31 December 2020 to approximately RMB11.0 per piece for the year ended 31 December 2021 mainly because the proportion of sales of 14x17 inch thermal film (which were sold at a higher average selling price) was slightly higher in 2021 than that in 2020. The average selling price of our thermal film slightly increased from approximately RMB11.0 per piece for the six months ended 30 June 2021 to approximately RMB11.2 per piece for the six months ended 30 June 2022.

The average selling price of our medical printing film decreased from approximately RMB7.7 per piece for the year ended 31 December 2019 to approximately RMB5.8 per piece for the year ended 31 December 2020 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. The average selling price of our medical printing film slightly decreased to approximately RMB5.4 per piece for the year ended 31 December 2021. The average selling price of our medical printing film remained stable at approximately RMB5.3 per piece and RMB5.4 per piece for the six months ended 30 June 2021 and 2022, respectively.

Cost of sales

Our cost of sales represented our costs of inventories sold, costs of services provided and tax and surcharges. For each of the three years ended 31 December 2021 and the six months ended 30 June 2022, we have recorded cost of sales of approximately RMB94.4 million, RMB122.9 million, RMB135.4 million and RMB59.0 million, respectively.

	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* (unaudited)	*%*	*RMB'000*	*%*
Cost of inventories sold	91,985	97.4	120,608	98.2	132,660	98.0	68,860	97.9	57,568	97.6
– Cost of medical imaging films and disc	90,191	95.5	115,684	94.2	130,486	96.4	67,792	96.4	56,405	95.6
– Depreciation	561	0.6	1,089	0.9	2,174	1.6	750	1.1	1,163	2.0
– Cost of equipment	1,233	1.3	3,835	3.1	–	–	318	0.4	–	–
Cost of services provided	2,059	2.2	1,844	1.5	2,105	1.5	1,170	1.6	952	1.6
– Technical service cost	1,776	1.9	1,561	1.3	1,787	1.3	971	1.4	740	1.3
– Cloud storage fees	283	0.3	283	0.2	318	0.2	199	0.2	212	0.3
Tax and surcharges	366	0.4	408	0.3	612	0.5	310	0.5	475	0.8
Total cost of sales	94,410	100.0	122,860	100.0	135,377	100.0	70,340	100.0	58,995	100.0

Our cost of inventories included cost of medical imaging films and disc, depreciation and cost of equipment. Our cost of services provided included our technical service cost and cloud storage fees.

Our cost of inventories sold amounted to approximately RMB92.0 million, RMB120.6 million, RMB132.7 million and RMB57.6 million for each of the three years ended 31 December 2021 and the six months ended 30 June 2022, respectively. Among the depreciation charged under the cost of sales, approximately RMB216,000, RMB828,000, RMB2.0 million, RMB620,000 and RMB1.2 million were the cost borne by our Group in relation to the provision of self-service film output printers and medical image printers for each of the three years ended 31 December 2021 and the six months ended 30 June 2021 and 2022, respectively. Our cost of medical imaging films and disc, which accounted for the largest component of our total cost of sales, represented the purchase cost of our medical imaging films and disc sold. Our cost of medical imaging films and disc exhibited an increasing trend during the three years ended 31 December 2021, which was in line the increase in revenue from sales of medical imaging film products. Our cost of medical imaging films and disc decreased from approximately RMB67.8 million for the six months ended 30 June 2021 to approximately RMB56.4 million for the six months ended 30 June 2022, which was in line with the decrease in our revenue from sales of medical imaging film products. Depreciation represented the depreciation of our medical imaging printers which are acquired or leased. Our cost of equipment represented the acquisition cost of our medical imaging printers. During the Track Record Period, the fluctuation of our cost of equipment are generally in line with our sales of medical equipment, including self-service film output printer and medical image printer.

Our cost of services provided amounted to approximately RMB2.1 million, RMB1.8 million, RMB2.1 million and RMB952,000 for each of the three years ended 31 December 2021 and the six months ended 30 June 2022, respectively. Technical service cost represented the wages and benefits of our technical staff for our provision of medical imaging cloud services and our cost of engaging third-party cloud platform developers. Our technical service cost decreased from approximately RMB1.8 million for the year ended 31 December 2019 to approximately RMB1.6 million for the year ended 31 December 2020 because of the completion of development of our cloud system in 2017, after which the cost payable to third party suppliers for development our cloud system continued to decrease. Our technical service cost increased to approximately RMB1.8 million for the year ended 31 December 2021, primarily due to the increase in labour cost as a result of the cloud technical support services provided to our enlarged customer base. Our technical service cost decreased from approximately RMB971,000 for the six months ended 30 June 2021 to approximately RMB740,000, which was primarily attributable to the decrease in labour cost of our technical staff as a result of our stable customer base and smooth operation of cloud system. Cloud storage fees represented the storage fees paid to third party suppliers for the cloud system and remained stable during the Track Record Period.

Gross profit and gross profit margin

We recorded gross profit of approximately RMB46.4 million, RMB61.6 million, RMB75.7 million and RMB39.6 million for each of the three years ended 31 December 2021 and the six months ended 30 June 2022, respectively. The respective gross profit margin for the same periods were approximately 33.0%, 33.4%, 35.9% and 40.2%.

Gross profit and gross profit margin by business segment

The following table sets out the gross profit and gross profit margin of our Group by business segment for the periods indicated:

	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* (unaudited)	*%*	*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
Total	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

Our gross profit for sales of medical imaging film products increased from approximately RMB36.6 million for the year ended 31 December 2019 to approximately RMB51.8 million for the year ended 31 December 2020 which was in line with the increase in revenue in the same period, while our gross profit margin of the same segment increased slightly from approximately 28.4% to approximately 30.0% for the same period, primarily attributable to the decrease in our purchase of medical imaging films from third parties brand medical imaging films suppliers as a result of the continued growth of our self-branded product which led to a slower growth in cost of inventories sold as compared to our revenue, leading to the increase in gross profit margin.

Our gross profit for sales of medical imaging film products increased from approximately RMB51.8 million for the year ended 31 December 2020 to approximately RMB63.7 million for the year ended 31 December 2021 which was in line with the increase in revenue for the same period, while our gross profit margin of the same segment increased from approximately 30% to approximately 32.3% for the same period, primarily attributable to an increase in the sales volume of our self-branded medical imaging films, which had a higher gross profit margin as compared to the gross profit margin of the sale of third parties brand medical imaging films.

Our gross profit for sales of medical imaging film products increased from approximately RMB31.4 million for the six months ended 30 June 2021 to approximately RMB34.7 million for the six months ended 30 June 2022, which was primarily attributable to the increased in gross profit margin from approximately 31.2% for the six months ended 30 June 2021 to approximately 37.4% for the six months ended 30 June 2022 because of the significant decrease in cost of sales resulted from (i) 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 other international OEM manufacturers; and (ii) the decrease in average cost brought by the rebate from Supplier B according to our rebate arrangement with them, while the average selling price of our self-branded medical imaging films remained stable.

Our gross profit for medical imaging cloud services slightly decreased from approximately RMB9.9 million for the year ended 31 December 2019 to approximately RMB9.8 million for the year ended 31 December 2020, which is in line with our decrease in revenue for the same segment. Our gross profit margin of the same segment slightly increased from approximately 82.7% to approximately 84.2% for the same period, which is relatively stable.

Our gross profit for medical imaging cloud services slightly increased from approximately RMB9.8 million for the year ended 31 December 2020 to approximately RMB12.0 million for the year ended 31 December 2021, and our gross profit margin of the same segment increased slightly from approximately 84.2% to approximately 85.1% for the same period, which is relatively stable. Our gross profit for medical imaging cloud services remained stable at approximately RMB5.0 million and RMB4.9 million for the six months ended 30 June 2021 and 2022, respectively, while the gross profit margin for the same segment only slightly increased from approximately 81.2% for the six months ended 30 June 2021 to approximately 83.7% for the six months ended 30 June 2022. Such an increase in gross profit margin was due to the decrease in the technical service cost, resulting from the decrease in labour cost of our technical staff as a result of our stable customer base and smooth operation of cloud system.

Other income and gains

During the Track Record Period, we had other income and gains which primarily represented our interest on bank deposits and government grants. The government grants mainly represent subsidies received from the local governments. We recorded other income and gains of approximately RMB146,000, RMB745,000, RMB1.3 million and RMB1.6 million for each of the three years ended 31 December 2021 and the six months ended 30 June 2022, respectively.

Selling and distribution expenses

Our selling and distribution expenses mainly consists of channel fees, staff costs related to sales and marketing, travelling fees, business development fees and vehicle expense. We incurred selling expenses of approximately RMB11.9 million, RMB17.0 million, RMB24.9 million and RMB12.3 million for each of the three years ended 31 December 2021 and the six months ended 30 June 2022, respectively.

The following table sets forth a breakdown of our selling and distribution expenses 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* (unaudited)	*RMB'000*
Channel fees	7,606	14,362	22,011	10,310	10,706
Staff cost	1,997	1,123	1,237	630	818
Travelling fees	792	406	500	203	174
Business development fees	625	505	697	211	227
Vehicle expense	493	414	249	130	78
Depreciation expense	97	74	232	68	166
Others*(Note 1)*	314	73	17	72	84
Total	11,924	16,957	24,943	11,624	12,253

Note:

(1) Others mainly include telecommunication fees, property management fees and maintenance fees.

We incurred channel fees for the services provided by our deliverers, which is 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), and 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. The services provided by deliverers generally included, amongst others, (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.The increasing trend of our channel fees during the Track Record Period was primarily because (i) some of our customers have shifted from direct purchase to purchase through deliverers during the Track Record Period, which was in line with the industry trend of increasing use of deliverers, according to CIC; and (ii) the increase in our proportion of sales through deliverers during 2021. For the reasons of increase in channel fees for a particular year/period during the Track Record

Period, please refer to the sub-paragraphs headed "Selling and distribution expenses" under the paragraph headed "Management's discussion and analysis of the results of our operation — Review of historical results of operations" below in this section.

Staff cost represented the salary and benefits to our sales and marketing personnel, which amounted to approximately RMB2.0 million, RMB1.1 million, RMB1.2 million and RMB818,000 for each of the three years ended 31 December 2021 and the six months ended 30 June 2022, respectively.

Administrative expenses

Our administrative expenses mainly consists of staff cost related to administrative personnel, office fees and business development fees. We incurred administrative expenses of approximately RMB3.5 million, RMB3.9 million, RMB17.8 million and RMB6.6 million for each of the three years ended 31 December 2021 and the six months ended 30 June 2022, respectively.

The following table sets forth a breakdown of our administrative expenses 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* (unaudited)	*RMB'000*
Staff cost	952	801	2,001	814	1,057
Office fees	835	451	243	210	91
Business development fees	580	918	589	268	298
Depreciation expenses	450	560	723	401	511
Agent service fees	245	474	1,768	494	606
[REDACTED] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Travelling expenses	160	56	98	134	89
Property management fees	84	84	—	—	—
Amortisation fees	55	98	—	—	—
Share-based payment	—	—	2,120	2,120	—
Others^(Note 1)^	167	219	706	235	193
Total	3,528	3,878	17,849	9,246	6,552

Note:

(1) Others mainly include water and electricity charges, telecommunication fees and bank charges.

Staff cost represented the salary and benefits to our administrative staff, which amounted to approximately RMB952,000, RMB801,000, RMB2.0 million and RMB1.1 million for each of the three years ended 31 December 2021 and the six months ended 30 June 2022, respectively.

Office fees represented the expenses in relation to the operation of our office, which amounted to approximately RMB835,000, RMB451,000, RMB243,000 and RMB91,000 for each of the three years ended 31 December 2021 and the six months ended 30 June 2022, respectively.

Agent service fees represented the expenses in relation to the supply, processing and distribution (SPD) platform service fee and tendering agency fees which amounted to approximately RMB245,000, RMB474,000, RMB1.8 million and RMB606,000 for each of the three years ended 31 December 2021 and the six months ended 30 June 2022, respectively. SPD platform service fees represented the fees we paid to SPD platform providers for the use of their SPD platform. SPD platform serves as an online platform for (i) the medical consumables and devices suppliers to sell their products; and (ii) hospitals and healthcare institutions to procure the medical consumable online. The SPD platform service fees are settled monthly. Tendering agency fees represented the fees we paid to the tendering agent designated by the hospital. Such fees generally include the service fee of arranging the tender and notarisation fees.

The following table sets forth a breakdown of the agent service fees 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* (unaudited)	*RMB'000*
SPD platform service fee	134	240	750	111	566
Tendering agency fee	4	174	90	—	—
Others*(Note)*	107	60	928	383	40
Total	245	474	1,768	494	606

Note: Others primarily represented fees we paid to professional agent such as accountants and lawyers for legal and accounting services.

The high tendering agency fee we recorded for the year ended 31 December 2020 was due to the larger number of tenders submitted and number of contracts awarded during the year. For further details on our number of tenders and tender success rate, please refer to the paragraph headed "Our business workflow — Quotation/Tender Process" in the section headed "Business".

Share-based payment of approximately RMB2.1 million for the year ended 31 December 2021 represented the payment in relation to the [REDACTED] Investment made by Tang Operation. Pursuant to an equity transfer agreement dated 14 January 2021 between Li Mengfang and Lingyun HK (the then wholly-owned investment vehicle of one of the shareholders), Lingyun HK acquired a 1% equity interest in Shanghai Guanze from Li Mengfang at a consideration of RMB0.46 million. Since the consideration is lower than the fair value, a share-based payment expense amounting to RMB2.1 million was recognised in accordance with the relevant accounting standards. For further details in relation to the [REDACTED] Investment of Tang Operation, please refer to paragraph head "[REDACTED] Investments — (i) [REDACTED] Investment made by Tang Operation" in the section "History, reorganisation and corporate structure" of this document.

[REDACTED] expenses represented the one-off expenses in relation to the preparation of the [REDACTED] incurred which are charged to the profit or loss, which amounted to approximately RMB[REDACTED] for the year ended 31 December 2020, approximately RMB[REDACTED] million for the year ended 31 December 2021 and approximately RMB[REDACTED] million for the six months ended 30 June 2022.

Research and development costs

We believe our research and development capabilities are the cornerstone for our long-term competitiveness, as well as the driving force for our future growth and development. For details of our research and development, please refer to the paragraph headed ''Business — Research and development'' in this document. Our research and development costs mainly comprise our cost for research and development personnel. Our research and development costs amounted to approximately RMB1.4 million, RMB1.2 million, RMB396,000 and RMB185,000 for each of the three years ended 31 December 2021 and the six months ended 30 June 2022, respectively.

Impairment losses on trade receivables

Our impairment losses on trade receivables represented the expected credit losses on our trade receivables. Our impairment losses on trade receivables amounted to approximately RMB104,000, RMB122,000, a gain of RMB73,000 and RMB124,000 for each of the three years ended 31 December 2021 and the six months ended 30 June 2022, respectively.

Finance costs

Our finance costs represented primarily interest on bank loans, interest on discount of bills receivable and interest on lease liabilities. We incurred finance costs of approximately RMB51,000, RMB789,000, RMB597,000 and RMB658,000 for each of the three years ended 31 December 2021 and the six months ended 30 June 2022, respectively.

Other expenses

Our other expenses represented primarily our impairment on inventory. We incurred other expenses of nil, approximately RMB386,000, RMB236,000 and nil for each of the three years ended 31 December 2021 and the six months ended 30 June 2022, respectively.

Income tax expense

Income tax expense consists principally of corporate income tax and deferred income tax. For each of the three years ended 31 December 2021 and the six months ended 30 June 2022, our income tax expense were approximately RMB7.3 million, RMB10.0 million, RMB10.0 million and RMB6.1 million, respectively and our effective tax rate for the same period were approximately 24.6%, 25.5%, 30.2% and 28.3%, respectively. The increasing trend of effective tax rate during the Track Record Period was due to the increase in [REDACTED] expenses by our Company which is not tax-deductible.

Pursuant to the rules and regulations of the Cayman Islands, our Company is not subject to any income tax in this jurisdiction during the Track Record Periods. The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profit of the Mainland China subsidiaries of our Group as determined in accordance with the PRC Corporation Income Tax Law which was approved and became effective on 1 January 2008.

During the Track Record Period and up to the Latest Practicable Date, we have performed all our tax obligations and did not have any unresolved tax disputes.

Profit and total comprehensive income for the year/period

Our profit and total comprehensive income for the year amounted to approximately RMB22.3 million, RMB29.0 million, RMB23.1 million, and RMB15.4 million for each of the three years ended 31 December 2021 and the six months ended 30 June 2022, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OUR OPERATION

The following sets forth the management's discussion and analysis of the results of the operation during the Track Record Period. The following discussion should be read in conjunction with the Consolidated Financial Information on the Group for each of the three years ended 31 December 2021 and the six months ended 30 June 2022 in the Accountants' Report, the text of which is set forth in Appendix I to this document.

Review of historical results of operations

Six months ended 30 June 2022 as compared to six months ended 30 June 2021

Revenue

Our revenue decreased by approximately RMB8.1 million, or 7.6%, from approximately RMB106.7 million for the six months ended 30 June 2021 to approximately RMB98.6 million for the six months ended 30 June 2022, which was due to the combined effect of:

(i) the decrease in revenue generated from sales of medical imaging film products from approximately RMB100.6 million for the six months ended 30 June 2021 to approximately RMB92.8 million for the six months ended 30 June 2022 primarily due to the decrease in average selling price of our medical dry laser film as (i) two of our five largest customers, namely 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 price than the model they procured in the past (namely DVB model); and (b) have been distributed to our customers since late May 2021; and (ii) some of our customer 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 which were sold at a lower unit price; and

(ii) the slight decrease in revenue generated from the medical imaging cloud service from approximately RMB6.2 million for the six months ended 30 June 2021 to approximately RMB5.9 million for the six months ended 30 June 2022, which was in line with the decrease in revenue of our medical imaging film products as we provide the medical imaging cloud services in the course of the medical imaging films.

Cost of sales

Our cost of sales decreased by approximately RMB11.3 million, or 16.1%, from approximately RMB70.3 million for the six months ended 30 June 2021 to approximately RMB59.0 million for the six months ended 30 June 2022, which mainly represented the decrease in our cost of inventories by approximately RMB11.2 million which was due to (i) 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 other international OEM manufacturers; and (ii) the decrease in average cost brought by the rebate from Supplier B according to our rebate arrangement with them.

Gross profit and gross profit margin

Our gross profit increased by approximately RMB3.2 million, or 8.8%, from approximately RMB36.4 million for the six months ended 30 June 2021 to approximately RMB39.6 million for the six months ended 30 June 2022, which was primarily due to the significant decrease in cost of sales for the reasons set out in the sub-paragraph headed ‘‘Cost of sales’’ above, while our revenue only decreased to a lesser extent.

Our gross profit margin increased by approximately 6.1 percentage points from approximately 34.1% for the six months ended 30 June 2021 to approximately 40.2% for the six months ended 30 June 2022, which was primarily due to (i) the increase in gross profit margin from sale of medical imaging film products (the revenue from this segment accounted for approximately 94.2% and 94.1% of the total revenue for the six months ended 30 June 2021 and 2022, respectively) from approximately 31.2% for the six months ended 30 June 2021 to approximately 37.4% for the six months ended 30 June 2022 because of the significant decrease in cost of sales resulted from (a) the decrease in average procurement cost of our 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; and (b) the decrease in average cost brought by the rebate from Supplier B according to our rebate arrangement with them, while the average selling price of our self-branded medical imaging films remained stable; and (ii) the slight increase in the gross profit margin for the cloud storage services from approximately 81.2% for the six months ended 30 June 2021 to approximately 83.7% for the six months ended 30 June 2022.

Other income and gains

Our other income and gains increased by approximately RMB0.3 million, or 23.1%, from approximately RMB1.3 million for the six months ended 30 June 2021 to approximately RMB1.6 million for the six months ended 30 June 2022, which was primarily due to the receipt of a one-off government grant related to Financial Subsidy Funds for Small, Medium and Micro-enterprises to Upgrade to High-tech Enterprises for the Year 2022* (2022年度中小微企業升級高新技術企業財政補助資金) in the sum of approximately RMB1.5 million.

Selling and distribution expenses

Our selling and distribution expenses increased slightly by approximately RMB0.7 million, or 6.0%, from approximately RMB11.6 million for the six months ended 30 June 2021 to approximately RMB12.3 million for the six months ended 30 June 2022, which was primarily due to (i) the increase in our staff costs of approximately RMB188,000 resulted from the increase in salary to our sales personnel; and (ii) the increase in our channel fees of approximately RMB396,000 notwithstanding the decrease in our revenue mainly because one of our hospital customers shifted from direct purchase to purchase through deliverers during the six months ended 30 June 2022. The amount of revenue derived from the said hospital customer amounted to approximately RMB5.6 million, RMB9.0 million, RMB9.4 million and RMB7.1 million during the Track Record Period, representing approximately 4.0%, 4.9%, 4.4% and 7.2% of our total revenue for the same periods.

Administrative expenses

Our administrative expenses decreased by approximately RMB2.6 million, or 28.3%, from approximately RMB9.2 million for the six months ended 30 June 2021 to approximately RMB6.6 million for the six months ended 30 June 2022, which was primarily due to the absence of share-based payment of approximately RMB2.1 million in relation to the [REDACTED] Investment made by Tang Operation which occurred for the six months ended 30 June 2021. For further details of the incurrence of share-based payment, please refer to the sub-paragraph headed "Year ended 31 December 2021 as compared to year ended 31 December 2020 — Administrative expenses" below in this section.

Research and development costs

Our research and development costs remained relatively stable at approximately RMB206,000 and RMB185,000 for each of the six months ended 30 June 2021 and 2022 respectively.

Impairment losses on trade receivables

Our impairment losses on trade receivables remained relatively stable at approximately RMB139,000 and RMB124,000 for each of the six months ended 30 June 2021 and 2022, respectively, which arouse as a result of the expected credit loss made for accounts receivables which was overdue and which we considered the possibility of collection was low.

Finance cost

Our finance cost increased by approximately RMB345,000, or 110.2%, from approximately RMB313,000 for the six months ended 30 June 2021 to approximately RMB658,000 for the six months ended 30 June 2022, which was primarily due to the increase in our interest-bearing bank borrowings.

Other expenses

Our other expenses decreased from approximately RMB110,000 for the six months ended 30 June 2021 to nil for the six months ended 30 June 2022 because we did not recognise impairment on inventory for the six months ended 30 June 2022.

Income tax

Our income tax expenses increased by approximately RMB1.2 million, or 24.5%, from approximately RMB4.9 million for the six months ended 30 June 2021 to approximately RMB6.1 million for the six months ended 30 June 2022, which was in line with the increase in our profit before tax.

Profit and total comprehensive income for the year

As a result of the foregoing factors, our profit and total comprehensive income for the year increased by approximately RMB4.2 million, or 37.9%, from approximately RMB11.2 million for the six months ended 30 June 2021 to approximately RMB15.4 million for the six months ended 30 June 2022.

Year ended 31 December 2021 as compared to year ended 31 December 2020

Revenue

Our revenue increased by approximately RMB26.7 million, or 14.5%, from approximately RMB184.4 million for the year ended 31 December 2020 to approximately RMB211.1 million for the year ended 31 December 2021. The increase was primarily attributable to the increase in sales of medical imaging film products from approximately RMB172.8 million for the year ended 31 December 2020 to approximately RMB196.9 million for the year ended 31 December 2021, while the revenue from medical imaging cloud services increased slightly from approximately RMB11.6 million for the year ended 31 December 2020 to approximately RMB14.2 million for the year ended 31 December 2021.

The increase in revenue generated from the sales of medical imaging film products was primarily due to the increased demand of medical imaging films from our customers and the significant increase in the sales of our thermal films which is due to our focus on our self-branded thermal film.

Cost of sales

Our cost of sales increased by approximately RMB12.5 million, or 10.2%, from approximately RMB122.9 million for the year ended 31 December 2020 to approximately RMB135.4 million for the year ended 31 December 2021. The increase was primarily attributable to the increase in our procurement cost of medical imaging films which is in line with the increase in sales of medical imaging films.

Gross profit and gross profit margin

Our gross profit increased by approximately RMB14.1 million, or 22.9%, from approximately RMB61.6 million for the year ended 31 December 2020 to approximately RMB75.7 million for the year ended 31 December 2021. The increase was primarily attributable to the increase in our gross profit for sales of medical imaging film products from approximately RMB51.8 million for the year ended 31 December 2020 to approximately RMB63.7 million for the year ended 31 December 2021 for the reasons mentioned in the paragraph headed "Gross profit and gross profit margin by business segment" in this section above.

Our gross profit margin increased by approximately 2.5 percentage points from approximately 33.4% for the year ended 31 December 2020 to approximately 35.9% for the year ended 31 December 2021. The increase was primarily attributable to an increase in the sales volume of our self-branded medical imaging films, which had a higher gross profit margin as compared to the gross profit margin of the sale of medical imaging films of the Medical Imaging Products Manufacturer.

Other income and gains

Our other income and gains increased significantly by approximately RMB555,000, or 74.5%, from approximately RMB745,000 for the year ended 31 December 2020 to approximately RMB1.3 million for the year ended 31 December 2021. The substantial increase was primarily attributable to the receipt of an one-off subsidy by Shanghai Guanze in the amount of approximately RMB1.0 million from China (Shanghai) Pilot Free Trade Zone Administration* (上海自貿試驗區管委會保稅區局) for information technology enterprise.

Selling and distribution expenses

Our selling and distribution expenses increased significantly by approximately RMB7.9 million, or 46.5%, from approximately RMB17.0 million for the year ended 31 December 2020 to approximately RMB24.9 million for the year ended 31 December 2021. The substantial increase was primarily attributable to the substantial increase in channel fees of approximately RMB7.6 million for our deliverers because three of our customers have shifted from direct purchase to purchase through deliverers during 2021 in line with the industry trend of increasing use of deliverers, according to CIC. The table below sets forth the revenue contribution for of the three customers for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2019		2020		2021		2021		2022	
	(RMB'000)	*(% of total revenue)*	*(RMB'000)*	*(% of total revenue)*	*(RMB'000)*	*(% of total revenue)*	*(RMB'000)* (unaudited)	*(% of total revenue)*	*(RMB'000)*	*(% of total revenue)*
Liaocheng Hospital	9,581	6.8	8,724	4.7	8,979	4.3	5,091	4.8	3,654	3.7
Hospital customer 1	2,578	1.8	3,092	1.7	3,905	1.9	1,798	1.7	1,849	1.9
Hospital customer 2	131	0.1	259	0.1	344	0.2	114	0.1	168	0.2
Total	12,290	8.7	12,075	6.5	13,228	6.4	7,003	6.6	5,671	5.8

In addition to the aforementioned shift in mode of sale, the increase in channel fees during the year was also attributable to the increase in our proportion of sales through deliverers during 2021. In particular, the channel fees we paid to the two of our top five deliverers in 2021 in terms of their revenue contribution to our Group increased during the year ended 31 December 2021. The end customers of the said deliverers included, among others, Shandong Tumour Prevention Hospital. Such increase was in line with our sales through such deliverers. For further details regarding our sales through deliverers, please refer to the paragraph headed "Sales, customers and marketing — Sales through deliverers" in the section headed "Business".

Administrative expenses

Our administrative expenses increased significantly by approximately RMB13.9 million, or 356.4%, from approximately RMB3.9 million for the year ended 31 December 2020 to approximately RMB17.8 million for the year ended 31 December 2021. The substantial increase was primarily attributable to (i) incurrence of [REDACTED] expenses of approximately RMB[REDACTED] million for the preparation of the [REDACTED]; (ii) the incurrence of share-based payment of approximately RMB[REDACTED] million in relation to the [REDACTED] Investment made by Tang Operation. Pursuant to an equity transfer agreement dated 14 January 2021 between Li Mengfang and Lingyun HK (the then wholly-owned investment vehicle of one of the shareholders), Lingyun HK acquired a 1% equity interest in Shanghai Guanze from Li Mengfang at a consideration of RMB0.46 million. The consideration is lower than the fair value and a share-based payment expense amounting to RMB2.1 million was recognised in 2021. For further details in relation to the [REDACTED] Investment of Tang Operation, please refer to paragraph head "[REDACTED] Investments — (i) [REDACTED] Investment made by Tang Operation" in the section "History, Reorganisation and Corporate Structure" of this document; and (iii) the increase in agent service fees from RMB474,000 for the year ended 31 December 2020 to approximately RMB1.8 million for the year ended 31 December 2021 due to an increase in customers adopting the SPD model and hence an increase in fees paid for the use of SPD platform services.

Research and development costs

Our research and development costs decreased by approximately RMB789,000, or 66.6%, from approximately RMB1.2 million for the year ended 31 December 2020 to approximately RMB396,000 for the year ended 31 December 2021. Such decrease was primarily due to the completion of development of certain cloud storage platform and software in 2020.

Impairment losses on trade receivables

Our impairment losses on trade receivables reversed from a loss of approximately RMB122,000 for the year ended 31 December 2020 to a reversal of approximately RMB73,000 for the year ended 31 December 2021. Such reversal was primarily due to the collection of receivable which was aged over two years from Liaocheng Hospital and was originally impaired.

Finance costs

Our finance cost slightly decreased from approximately RMB789,000 for the year ended 31 December 2020 to approximately RMB597,000 for the years ended 31 December 2021.

Other expenses

Our other expense decreased from approximately RMB386,000 for the year ended 31 December 2020 to approximately RMB236,000 for the year ended 31 December 2021, which is primarily because less impairment on inventory was recognised.

Income tax

Our income tax expense remained relatively stable at approximately RMB10.0 million for the years ended 31 December 2020 and 2021.

Profit and total comprehensive income for the year

As a result of the foregoing factors, our profit and total comprehensive income for the year decreased by approximately RMB5.9 million, or 20.3%, from approximately RMB29.0 million for the year ended 31 December 2020 to approximately RMB23.1 million for the year ended 31 December 2021.

Year ended 31 December 2020 as compared to year ended 31 December 2019

Revenue

Our revenue increased by approximately RMB43.6 million, or 31.0%, from approximately RMB140.8 million for the year ended 31 December 2019 to approximately RMB184.4 million for the year ended 31 December 2020. The increase was primarily attributable to the increase in sales of medical imaging film products from approximately RMB128.9 million to approximately RMB172.8 million, while our revenue generated from the medical imaging cloud services slightly decreased from approximately RMB11.9 million for the year ended 31 December 2019 to approximately RMB11.6 million for the year ended 31 December 2020, which is relatively stable.

The increase in sales of medical imaging film products was primarily due to (i) the increased demand of medical imaging film products along with the growth in the medical imaging industry; and (ii) the increase in clinical diagnosis during COVID-19 which created more demand for our thermal and medical dry laser films.

Cost of sales

Our cost of sales increased by approximately RMB28.5 million, or 30.2%, from approximately RMB94.4 million for the year ended 31 December 2019 to approximately RMB122.9 million for the year ended 31 December 2020. The increase was primarily attributable to (i) the increase in cost of medical imaging film and disc brought by the increase in sales in 2020 due to the impact of COVID-19; and (ii) the increase in cost of equipment of our self-service film output printers.

Gross profit and gross profit margin

Our gross profit increased by approximately RMB15.2 million, or 32.8%, from approximately RMB46.4 million for the year ended 31 December 2019 to approximately RMB61.6 million for the year ended 31 December 2020. The increase was primarily attributable to the increase in our gross profit for the sales of medical imaging film products from approximately RMB36.6 million for the year ended 31 December 2019 to approximately RMB51.8 million for the year ended 31 December 2020 for the reasons mentioned in the paragraph headed "Gross profit and gross profit margin by business segment" in this section above.

Our gross profit margin remained stable at approximately 33.0% for the year ended 31 December 2019 and approximately 33.4% for the year ended 31 December 2020 as a result of the combined effect of the increase in gross profit margin for our sales of medical imaging film products and medical imaging cloud services for the reasons mentioned in the paragraph headed "Gross profit and gross profit margin by business segment" in this section above.

Other income and gains

Our other income and gains increased significantly by approximately RMB599,000, or 410.3%, from approximately RMB146,000 for the year ended 31 December 2019 to approximately RMB745,000 for the year ended 31 December 2020. The substantial increase was primarily attributable to the receipt of an one-off subsidy by Shanghai Guanze in the amount of RMB713,000 from China (Shanghai) Pilot Free Trade Zone Administration* (上海自貿試驗區管委會保税區局) for information technology enterprises.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately RMB5.1 million, or 42.9%, from approximately RMB11.9 million for the year ended 31 December 2019 to approximately RMB17.0 million for the year ended 31 December 2020. The increase was primarily attributable to the substantial increase in channel fees of approximately RMB6.8 million paid to the designated deliverers of public hospitals or medical institutions for the sales of our products as a result of the increase in sales through deliveries which is due to the change of hospital's or medical institutions' internal policies to procure through deliverer, as partially offset by the decrease in staff cost due to the reduction in number of sales personnel.

Administrative expenses

Administrative expenses increased by approximately RMB400,000, or 11.4%, from approximately RMB3.5 million for the year ended 31 December 2019 to approximately RMB3.9 million for the year ended 31 December 2020. The increase was primarily attributable to (i) the incurrence of the [REDACTED] expense in preparation for our [REDACTED]; and (ii) increase in business development expenses due to our business expansion, as partially offset by the decrease in our office expense and travelling expense.

Research and development costs

Our research and development costs decreased slightly by approximately RMB200,000, or 12.4%, from approximately RMB1.4 million for the year ended 31 December 2019 to approximately RMB1.2 million for the year ended 31 December 2020. The slight decrease was principally due to the completion of the research and development of our medical image data distribution system in 2019 and therefore no such research and development cost was incurred for the year ended 31 December 2020.

Impairment losses on trade receivables

Our impairment losses on trade receivables increased by approximately RMB18,000, or 17.3%, from approximately RMB104,000 for the year ended 31 December 2019 to approximately RMB122,000 for the year ended 31 December 2020. This was principally due to the larger amount of expected credit loss made for accounts receivable which was overdue and which we considered the possibility of collection was low.

Finance costs

Our finance costs increased significantly by approximately RMB738,000, or 1,447.1% from approximately RMB51,000 for the year ended 31 December 2019 to approximately RMB789,000 for the year ended 31 December 2020. The substantial increase was mainly due to the increase in interest on bank loans by approximately RMB717,000 from approximately RMB9,000 for the year ended 31 December 2019 to approximately RMB726,000 for the year ended 31 December 2020 as a result of the increase in bank borrowings in 2020.

Other expenses

Our other expenses increased from nil for the year ended 31 December 2019 to approximately RMB386,000 for the year ended 31 December 2020, primarily attributable to the incurrence of impairment of inventory and loss on disposal of vehicles.

Income tax

Our income tax increased by approximately RMB2.7 million, or 37.0%, from approximately RMB7.3 million for the year ended 31 December 2019 to approximately RMB10.0 million for the year ended 31 December 2020. The increase was primarily due to the corresponding increase in our profit before taxation.

Profit and total comprehensive income for the year

As a result of the foregoing factors, our profit and total comprehensive income for the year increased by approximately RMB6.7 million, or 30.0%, from approximately RMB22.3 million for the year ended 31 December 2019 to approximately RMB29.0 million for the year ended 31 December 2020.

DISCUSSION OF CERTAIN ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets out our consolidated statements of financial position at the dates indicated. This information should be read together with our Consolidated Financial Information included in the Accountants' Report in Appendix I to this document.

Consolidated statements of financial position of our Group as at the dates indicated below

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	11,149	20,281	24,817	27,289
Prepayment for property, plant and equipment	—	830	—	—
Right-of-use assets	2,085	4,982	4,672	4,517
Intangible assets	2,590	1,793	1,005	587
Deferred tax assets	57	132	69	100
Total non-current assets	15,881	28,018	30,563	32,493
CURRENT ASSETS				
Inventories	34,231	21,632	12,571	3,428
Trade and bills receivables	69,870	96,630	137,249	166,861
Prepayments, other receivables and other assets	9,408	2,084	3,433	6,340
Due from the shareholder	—	—	—	8,000
Cash and cash equivalents	6,494	5,521	20,235	14,925
Total current assets	120,003	125,867	173,488	199,554
CURRENT LIABILITIES				
Trade payables	160	2,777	14,811	12,028
Contract liabilities	4,559	3,633	1,263	4,053
Other payables and accruals	2,307	2,615	2,641	4,154
Interest-bearing bank borrowings	1,000	4,721	15,000	29,052
Due to the controlling shareholder	1,509	30,642	4,582	—
Due to related parties	46,270	—	—	—
Lease liabilities	32	69	66	55
Tax payables	5,750	7,176	2,974	4,613
Total current liabilities	61,587	51,633	41,337	53,955
NET CURRENT ASSETS	58,416	74,234	132,151	145,599
TOTAL ASSETS LESS CURRENT LIABILITIES	74,297	102,252	162,714	178,092

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT LIABILITIES				
Interest-bearing bank borrowings	—	3,592	—	—
Lease liabilities	—	220	154	130
Total non-current liabilities	—	3,812	154	130
NET ASSETS	74,297	98,440	162,560	177,962
EQUITY				
Equity attributable to owners of the parent				
Share capital	—	—	—	—
Reserves	74,297	98,440	162,397	177,713
	74,297	98,440	162,397	177,713
Non-controlling interest	—	—	163	249
Total equity	74,297	98,440	162,560	177,962

Property, plant and equipment

During the Track Record Period, our property, plant and equipment consisted mainly of buildings, plant and machinery, furniture and fixtures, motor vehicles and leasehold improvements. As at 31 December 2019, 2020, 2021 and 30 June 2022, the net book value of our property, plant and equipment were approximately RMB11.1 million, RMB20.3 million, RMB24.8 million and RMB27.3 million, respectively.

The increase in the net book value of our property, plant and equipment from approximately RMB11.1 million as at 31 December 2019 to approximately RMB20.3 million as at 31 December 2020 was mainly due to addition in buildings, plants and machinery of approximately RMB10.9 million attributable to the acquisition of, among others, (i) motor vehicles for business operation; (ii) medical imaging printers including medical image printer, copier and self-service film output printer; and (iii) a property by Jinan Guanze.

The increase in the net book value of our property, plant and equipment from approximately RMB20.3 million as at 31 December 2020 to approximately RMB24.8 million as at 31 December 2021 was mainly due to the acquisition of medical imaging printers including, among others, copier and self-service film output printers by Shanghai Guanze.

The net book value of our property, plant and equipment increased from approximately RMB24.8 million as at 31 December 2021 to approximately RMB27.3 million as at 30 June 2022, primarily attributable to the acquisition of medical imaging printers including, among others, copier and self-service film output printer by Shanghai Guanze, as partially offset by depreciation charged.

Prepayment for property, plant and equipment

We recorded prepayment for property, plant and equipment of approximately RMB830,000 as at 31 December 2020 which mainly represented the prepayment for acquisition of medical imaging printers.

Right-of-use assets

Our right-of-use assets as at 31 December 2019, 2020, 2021 and 30 June 2022 amounted to approximately RMB2.1 million, RMB5.0 million, RMB4.7 million and RMB4.6 million, respectively, which primarily represented our right for use of the rented office in our operation. Our right-of-use assets increased from RMB2.1 million as at 31 December 2019 to approximately RMB5.0 million as at 31 December 2020, which was primarily attributable to the renewal of the lease in relation to one of our leased properties in Shanghai. Our right-of-use assets slightly decreased to approximately RMB4.7 million and RMB4.6 million as at 31 December 2021 and 30 June 2022, respectively, primarily due to depreciation.

Intangible assets

Our intangible assets as at 31 December 2019, 2020, 2021 and 30 June 2022 amounted to approximately RMB2.6 million, RMB1.8 million, RMB1.0 million and RMB587,000, respectively, which represented (i) the software used in relation to our daily operation; and (ii) our medical cloud platform developed in 2017. There has been a decreasing trend in our intangible assets during the Track Record Period due to amortisation as we have capitalised the research and development costs of our medical cloud platform in 2017.

Inventories

Our inventories primarily consisted of raw materials and finished goods. As at 31 December 2019, 2020, 2021 and 30 June 2022, we had inventories of approximately RMB34.2 million, RMB21.6 million, RMB12.6 million and RMB3.4 million, respectively, accounting for approximately 28.5%, 17.2%, 7.2% and 1.7% of our total current assets. The following table sets forth the components of our inventories as at the date indicated.

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	—	1,252	1,539	922
Finished goods	34,231	20,380	11,032	2,506
Total	34,231	21,632	12,571	3,428

Our finished goods was the largest component of our inventories, accounting for 100%, 94.2%, 87.8% and 73.1% of our total inventories as at 31 December 2019, 2020, 2021 and 30 June 2022, respectively. Our finished goods mainly represented our medical imaging film products. Our raw material primarily represented our accessories, packaging materials and shell of self-service film output printer. We did not record any raw material balance as at 31 December 2019 as our raw materials were converted into finished goods at the end of the respective years.

Our inventories decreased from approximately RMB34.2 million as at 31 December 2019 to approximately RMB21.6 million as at 31 December 2020. Such decrease was mainly attributable to the increased demand for medical imaging films due to the outbreak of COVID-19 which led to the increase in our sales and hence faster turnover of medical imaging film products, as partially offset by the increase in raw materials.

Our inventories decreased from approximately RMB21.6 million as at 31 December 2020 to approximately RMB12.6 million as at 31 December 2021. Such decrease was mainly attributable to increase in sales and hence faster turnover of our medical imaging films due to the increase in demand of our medical imaging films from hospitals and healthcare institutions during the end of the year.

Our inventories decreased from approximately RMB12.6 million as at 31 December 2021 to approximately RMB3.4 million as at 30 June 2022, which was mainly due to utilisation of our medical imaging film products. Our Directors considered that due to the change in customers' preference of our medical imaging film products (such as shift from DVB model to the AMB and DVS models) since 2021, there are uncertainties as to their future choice of products, hence we did not actively purchase raw material for the six months ended 30 June 2022 in order to prevent the risk of obsolescence.

As at the Latest Practicable Date, the inventories having been utilised or sold amounted to RMB3.4 million, representing 100% of inventories in stock as at 30 June 2022.

The table below sets forth the turnover days of our inventories[(1)] for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June
	2019	2020	2021	2022
Average inventory turnover days	110	85	46	25

Note:

(1) The average inventory turnover days for a year/period represent is calculated as the average balances of inventories (net of inventories provision) at the beginning and end of the year divided by cost of sales for the year and multiplied by 365 days for each of the three years ended 31 December 2021 and 180 days for the six months ended 30 June 2022.

Our average inventory turnover days decreased from approximately 110 days for the year ended 31 December 2019 to approximately 85 days for the year ended 31 December 2020, primarily attributable to the increase in our sale of medical imaging films products resulting from COVID-19 which may have created more demand for medical imaging films for clinical purpose during the relevant period and hence a faster turnover of our medical imaging films.

Our average inventory turnover days decreased from approximately 85 days for the year ended 31 December 2020 to approximately 46 days for the year ended 31 December 2021, primarily attributable to (i) the increase in the sale and turnaround of our medical imaging films during the relevant period; and (ii) our aim to further lower our inventory turnover days to improve the efficiency of operation of our Group.

Our average inventory turnover days decreased from approximately 46 days for the year ended 31 December 2021 to approximately 25 days for the six months ended 30 June 2022, primarily due to (i) the decrease in inventories balance from approximately RMB12.6 million as at 31 December 2021 to approximately RMB3.4 million as at 30 June 2022 for the reasons mentioned above; and (ii) the lower annualised cost of sales for the six months ended 30 June 2022 as compared to the full year ended 31 December 2021.

The following tables set out the ageing analysis of our inventories:

	Raw materials	Finished goods	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2019			
Within one year	—	32,486	32,486
One to two year	—	1,745	1,745
Total	—	34,231	34,231

	Raw materials	Finished goods	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2020			
Within one year	1,252	19,865	21,117
One to two year	—	693	693
Total	1,252	20,558	21,810
Provision for inventories			(178)
			21,632

	Raw materials	Finished goods	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2021			
Within one year	1,539	11,032	12,571
One to two year	—	—	—
Total	1,539	11,032	12,571

	Raw materials	Finished goods	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 30 June 2022			
Within one year	922	2,149	3,071
One to two year	—	357	357
Total	922	2,506	3,428

We review the condition of our inventories and make provision for obsolete and slow-moving inventory items. We carry out an inventory review on a product-by-product basis at the end of each reporting period and make provision for obsolete or slow-moving items. Provision for inventories is made with reference to the ageing of inventories. We made provision for inventories of approximately RMB178,000 for the year ended 31 December 2020 because of the impairment of our aged inventories.

Trade and bills receivables

Our trade and bills receivables mainly represented the receivables from our customers for the sales of medical imaging film products and provision of cloud services during the ordinary course of our business.

The following table sets forth the components of our trade and bills receivables as at the date indicated.

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	66,571	84,709	125,638	149,591
Bills receivables	3,526	12,270	11,887	17,670
Impairment losses	(227)	(349)	(276)	(400)
Trade and bills receivables, net	69,870	96,630	137,249	166,861

Our trade and bills receivables further increased from approximately RMB69.9 million as at 31 December 2019 to approximately RMB96.6 million as at 31 December 2020 due to the combined effect of (i) the increase in trade receivables from approximately RMB66.6 million as at 31 December 2019 to approximately RMB84.7 million as at 31 December 2020 which was in line with the growth of our revenue; and (ii) the substantial increase in bills receivables from approximately RMB3.5 million as at 31 December 2019 to approximately RMB12.3 million as at 31 December 2020 because some of our customers began to use banker's acceptance bill as a way of settling purchase amount.

Our trade and bills receivables further increased from approximately RMB96.6 million as at 31 December 2020 to approximately RMB137.2 million as at 31 December 2021 due to the substantial increase in trade receivables from approximately RMB84.7 million as at 31 December 2020 to approximately RMB125.6 million as at 31 December 2021 which was in line with the growth of our revenue, as partially offset by the decrease in bills receivables from approximately RMB12.3 million as at 31 December 2020 to approximately RMB11.9 million as at 31 December 2021 resulting from the settlement of banker's acceptance bills by certain of our customers.

Our trade and bills receivable increased from approximately RMB137.2 million as at 31 December 2021 to approximately RMB166.9 million as at 30 June 2022 because most of the trade receivables were not fall due for the sales we made in the previous year, while we continued to record sales during the six months ended 30 June 2022.

The table below sets forth the ageing analysis of our trade receivables based on the due date, maturity date of bills, net of provisions, as at the dates indicated:

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	64,178	83,464	123,893	146,967
One to two years	2,166	896	1,469	2,224
	66,344	84,360	125,362	149,191

We normally grant a credit period of 90 to 365 days to our customers while we generally grant a credit term of 90 to 300 days for our five largest customers. According to CIC, public hospitals customers usually required a lengthy credit period as public hospitals generally tend to prioritise the use of their capital for other purposes and it is an industry norm that medical product suppliers like us usually offer a long credit period for downstream hospital customers. For details of our liquidity management measures in light of the cash flow mismatch arising from the gap between the credit period we granted to our customers and the credit period we were granted by our suppliers, please refer to the paragraph headed "Liquidity and capital resources — Liquidity management measures" below in this section. During the Track Record Period, approximately 96.7%, 98.9%, 98.8% and 98.5% of our total trade receivables are due within one year.

As at the Latest Practicable Date, the trade and bills receivable having been subsequently settled amounted to approximately RMB58.4 million, representing approximately 35.0% of trade and bills receivables as at 30 June 2022.

The following table sets forth the movements in the our allowance for impairment of trade receivables as at the dates indicated:

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of year	123	227	349	276
Impairment losses	104	122	(73)	124
At the end of year	227	349	276	400

In determining the recoverability of trade receivables from our customers, we generally take into consideration a number of indicators, including historical recoverability and any change in the credit quality of the trade receivable from the date on which the credit was initially granted up to the reporting date. Having taken into account the aforementioned factors and a reversal of impairment loss recorded for the year ended 31 December 2021, our Directors are of the view that there is no material recoverability issue with respect to trade receivables from our customers.

Our Directors have carefully assessed the lifetime expected credit loss of trade receivables throughout the Track Record Period. As at 31 December 2019, 2020 and 2021, there was no significant change in the expected credit loss rate for our trade receivables for accounting purposes. This is because (i) there is no material change to the major customers of our Group for the three financial years ended 31 December 2021; (ii) our revenue generated from the sales to public hospitals in Shandong Province amounted to approximately RMB139.9 million, RMB183.1 million and RMB209.9 million, respectively, during each of the three financial years ended 31 December 2021, accounting for approximately 99.4%, 99.3% and 99.4% of our Group's total revenue during the same period, respectively; and (iii) our Directors considered that there was no significant change to the risk pattern and forward-looking factors during the three financial years ended 31 December 2021. We increased the expected credit loss rate as at 30 June 2022 to reflect the adverse impact of the delay of payments of a portion of certain public hospital customers due to the macroeconomic environment. For details of our trade receivables and credit risk exposure, please refer to Note 17 to the Accountants' Report as set out in Appendix I to this Document.

Taking into consideration (i) our liquidity management measures in place; (ii) the low proportion of receivables which are aged over one year; (iii) the industry norm that medical product suppliers usually offer a long credit period for downstream hospital customers; and (iv) most of our customers are public hospitals, our Directors are of the view that the default risk of our overdue trade receivables are relatively low and sufficient provision has been made to the trade receivables during the Track Record Period.

The table below sets forth the turnover days of our trade receivables[(1)] for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June
	2019	**2020**	**2021**	**2022**
Trade receivables turnover days	179	149	181	251

Note:

(1) The average turnover days of trade receivables is calculated as the relevant average balances of trade receivables net of impairment of trade receivables at the beginning and end of the year/period divided by the corresponding revenue for the year and multiplied by 365 days for each of the three years ended 31 December 2021 and 180 days for the six months ended 30 June 2022.

Our trade receivables turnover days decreased from approximately 179 days for the year ended 31 December 2019 to approximately 149 days for the year ended 31 December 2020, primarily attributable to our continuous effort to monitor and evaluate overdue payments on a case-by-case basis with appropriate follow-up actions.

Our trade receivables turnover days increased from approximately 149 days for the year ended 31 December 2020 to approximately 181 days for the year ended 31 December 2021, primarily attributable to certain customers with longer payment cycle increased purchases from us which led to an overall increase in turnover days.

Our trade receivables turnover days increased from approximately 181 days for the year ended 31 December 2021 to approximately 251 days for the six months ended 30 June 2022, primarily due to (i) the increase in our trade receivables (net of provisions) from approximately RMB125.4 million as at 31 December 2021 to approximately RMB149.2 million as at 30 June 2022 for the reasons mentioned above; (ii) the lower annualised revenue for the six months ended 30 June 2022 as compared to the revenue for the year ended 31 December 2021, which contributed to the higher trade receivables turnover days; and (iii) certain hospital customers with longer payment cycle have increased their purchase from us for the year ended 30 June 2021.

Save as discussed above, our Directors considered no further provision is needed on the following basis: (i) our Group did not experience any impediment in collecting trade receivables from our customers during the Track Record Period; (ii) most of our customers have demonstrated good historical repayment record; and (iii) we have put strong effort in chasing payments for overdue balance and assessed the repayment schedules of customers by having communications with them and we were not aware of circumstances which might cause impairment to these trade receivables.

Prepayments, other receivables and other assets

Our prepayments, other receivables and other assets mainly represented deposits provided to the suppliers, which will be refunded thereafter, prepayments, deferred [REDACTED] expense and deductible value-added tax. The following table sets out a breakdown of our prepayments, other receivables and other assets as at the dates indicated:

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
Deposits	2,141	480	19	89
Prepayments	4,884	1,604	583	505
Deferred [REDACTED] expense	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Deductible value-added tax	2,383	—	232	2,403
Total	9,408	2,084	3,433	6,340

Our prepayments, other receivables and other assets amounted to approximately RMB9.4 million, RMB2.1 million, RMB3.4 million and RMB6.3 million as at 31 December 2019, 2020, 2021 and 30 June 2022, respectively.

Our prepayments, other receivables and other assets decreased substantially by approximately RMB7.3 million from approximately RMB9.4 million as at 31 December 2019 to approximately RMB2.1 million as at 31 December 2020, which is mainly attributable to (i) the significant decrease of prepayment by approximately RMB3.3 million from approximately RMB4.9 million as at 31 December

2019 to approximately RMB1.6 million as at 31 December 2020 as the products we purchased from Supplier B were delivered and the prepayment balance was reduced accordingly; (ii) the absence of deductible value-added tax which was incurred in the previous year due to the utilisation of the deductible VAT input in line with the increase in our revenue and improved management of VAT input certification process by our Group; and (iii) the decrease in deposits of approximately RMB1.7 million primarily as a result of the reduction in deposits balance which was re-classified to non-current assets.

According to Article 25 of Notice of the State Administration of Taxation on Amending the Provisions on the Use of Special Value-Added Tax Invoices (國家稅務總局關於修訂《增值稅專用發票使用規定》的通知), VAT invoices should be certified by tax authorities before the same can be used for deducting value-added taxes. Our accounting staff is responsible for the certification by accessing to the tax control system. Once the certification is completed, the VAT input tax amount can be used to set off against sales tax, reducing our deductible value-added tax. We have improved our certification process as our account staff performed such process within a shorter timeframe after the receipt of the VAT invoice in 2020 than in 2019.

Our prepayments, other receivables and other assets increased significantly by approximately RMB1.3 million from approximately RMB2.1 million as at 31 December 2020 to approximately RMB3.4 million as at 31 December 2021, which is mainly attributable to the incurrence of deferred [REDACTED] expenses of approximately RMB2.6 million which did not occur in the previous year; as partially offset by the decrease in prepayment of approximately RMB1.0 million primarily because we made less prepayment for the purchase of raw materials.

Our prepayments, other receivables and other assets further increased by approximately RMB2.9 million from approximately RMB3.4 million to as at 31 December 2021 to approximately RMB6.3 million as at 30 June 2022, which is mainly attributable to (i) the significant increase in deductible value-added tax of approximately RMB2.2 million because certain invoices from Honghe Group in mid to late June 2022 regarding our purchase were yet to certified as at 30 June 2022. Therefore, the relevant input tax could not be used to offset output tax; and (ii) the increase in deferred [REDACTED] expense of approximately RMB744,000 in preparation for the [REDACTED].

Trade payables

Our trade payables mainly represented amounts due to suppliers for the purchase of raw materials.

Our trade payables increased significantly from approximately RMB160,000 as at 31 December 2019 to approximately RMB2.8 million as at 31 December 2020, primarily because our payables to Honghe Group was not due and therefore our trade payable balance was relatively high.

Our trade payables further increased to approximately RMB14.8 million as at 31 December 2021, primarily because there has been a bulk purchase of medical imaging film products from Honghe Group in the end of 2021, as we had to replenish our inventory in view of the high turnover of inventories brought by the increase in the demand from hospitals and healthcare institutions during the year. Such payable were not due as at 31 December 2021. As a result, we recognised a larger balance as at 31 December 2021.

Our trade payables decreased from approximately RMB14.8 million as at 31 December 2021 to approximately RMB12.0 million as at 30 June 2022, which was primarily due to the repayment of trade payables which fall due.

The table below sets forth the ageing analysis of our trade payables based on the invoice date, as at the dates indicated:

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	160	2,777	14,811	12,028
Total	160	2,777	14,811	12,028

As at the Latest Practicable Date, the trade payables having been subsequently settled amounted to approximately RMB11.2 million, representing approximately 93.3% of trade payables as at 30 June 2022.

The table below sets forth the turnover days of our trade payables(1) for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June
	2019	2020	2021	2022
Trade payable turnover days(1)	1	4	24	41

Note:

(1) The average turnover days of trade payables is calculated as their average balances at the beginning and end of the year/period divided by cost of sales for the year and multiplied by 365 days.

We have low trade payables turnover days as we generally settle our trade payables upon delivery of goods. Our trade payables turnover days for the three years ended 31 December 2021 remained relatively low at approximately 1 day, 4 days, 24 days, respectively. Our trade payables turnover days for the year ended 31 December 2021 increased significantly to approximately 24 days due to the significant increase in our trade payable balance payable to Honghe Group as at 31 December 2021 for the reason mentioned in this subsection above. Our average trade payable turnover days further increased from approximately 24 days for the year ended 31 December 2021 to approximately 41 days for the six months ended 30 June 2022, primarily due to the increase in our average trade payables balance due to the lower opening balance for the year ended 31 December 2021.

Other payables and accruals

Our other payables and accruals mainly represented other payables, payroll and welfare payables and contract liabilities. The following table sets out a breakdown of our other payables and accruals as at the dates indicated:

	As at 31 December			As at 30 June
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other payables	1,365	2,112	2,322	3,492
Payroll and welfare payables	942	503	319	662
Total	2,307	2,615	2,641	4,154

Our other payables and accruals amounted to approximately RMB2.3 million, RMB2.6 million, RMB2.6 million and RMB4.2 million as at 31 December 2019, 2020, 2021 and 30 June 2022, respectively.

Our other payables and accruals increased from approximately RMB2.3 million as at 31 December 2019 to approximately RMB2.6 million as at 31 December 2020 as a result of the significant increase in other payables due to increase in value added tax payable, which was partially offset by the decrease in payroll and welfare payables as our Group did not give out bonus to staff in 2020.

Our other payables and accruals remained relatively stable at approximately RMB2.6 million as at 31 December 2021.

Our other payables and accruals increased from approximately RMB2.6 million as at 31 December 2021 to approximately RMB4.2 million as at 30 June 2022, which was primarily due to the increase in other payables in relation to (i) the increase in salaries payable to our staff in Jinan Guanze; and (ii) the increase in other tax payables due to the increase in, among others, value-added taxes and city construction taxes resulted from the increase in revenue from Jinan Guanze and favourable government policies which allow companies to postpone the payment of taxes.

MATERIAL RELATED PARTY TRANSACTIONS

During the Track Record Period, our related party transactions included (i) the purchase of medical imaging films and medical imaging printers from Guanze Medical Equipment (Shanghai) Co., Ltd., ("**Guanze Medical**") which was controlled by Mr. Meng; and (ii) Hui Yue Business Trading (Shanghai) Co., ("**Hui Yue**") in which Mr. Meng's equity interest was held by him for and on behalf of his family member before their de-registration on 12 August 2020 and 29 June 2020, respectively. For the details of the related parties, please refer to Note 28 to the Accountants' Report as set out in Appendix I to this document.

Guanze Medical was established with an aim to develop a start-up medical project and capture the benefits awarded by the local authority to the enterprises in Shanghai Chongming Industrial Zone (上海崇明工業園區). To finance the initial overheads and required working capital of the Guanze Medical, it was the initial plan to let Guanze Medical distribute some of the medical imaging films products. However, as Guanze Medical did not identify any promising project at the end, the remaining inventories of Guanze Medical were sold to us before its deregistration in August 2020.

Hui Yue was set up with an aim to become a distributor of another international brand of medical imaging film products. However, Hui Yue failed to secure any customers at the end and sold to us the only batch of medical imaging film and medical imaging printers of that international brand before its de-registration in June 2020.

For the years ended 31 December 2019, 2020, 2021 and the six months ended 30 June 2022:

(i) the purchase of medical imaging films by the Group from Guanze Medical of approximately nil, RMB3.9 million, nil and nil for each of the three years ended 31 December 2019, 2020, 2021 and the six months ended 30 June 2022, respectively. Under this purchase, the price of medical imaging film was determined based on the cost charged by third party supplier(s) to Guanze Medical plus a mark-up of approximately 18.6%. If the Group purchased the relevant products directly from other third party supplier(s), the cost for this purchase would decrease by approximately RMB0.6 million for the year ended 31 December 2020; and

(ii) the purchase of medical imaging films and medical imaging equipment by the Group from Hui Yue of approximately nil, RMB578,000, nil and nil for each of the three years ended 31 December 2019, 2020, 2021 and the six months ended 30 June 2022, respectively. Under this purchase, the prices of medical imaging film and medical imaging equipment were determined based on the costs charged by third party supplier(s) to Hui Yue plus a mark-up of approximately 14.2% and 6.7%, respectively. If the Group purchased the relevant products and equipment directly from such third party supplier(s), the cost for this purchase would decrease by approximately RMB55,000 for the year ended 31 December 2020.

For illustrative purpose, if the aforesaid related party transactions were conducted on normal commercial terms and taking into consideration the financial impacts of items (i) and (ii) above, the net profit of the Group would be adjusted upward by approximately RMB$0.7 million for the year ended 31 December 2020.

Our Directors confirmed that the aforementioned transactions were one-off in nature and our Group currently has no intentions to enter into any transaction with Guanze Medical and Hui Yue (both of which were deregistered) going forward. In the event that our Company enter into any transaction with related parties in the future, our Company will comply with the relevant requirements under the Listing Rules.

AMOUNTS DUE TO RELATED PARTIES

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-trade nature				
Due from the controlling shareholder:				
Mr. Meng	—	—	—	8,000
Due to the controlling shareholder:				
Mr. Meng	1,509	30,642	4,582	—

	2019	2020	2021	2022
Non-trade nature				
Due to related parties:				
Jinan Green Yuanda Medical Equipment Co., Ltd. ("**Jinan Green**") *(Note 1)*	1,000	—	—	—
Hui Yue Business Trading (Shanghai) Co., Ltd. ("**Hui Yue**") *(Note 2)*	45,270	—	—	—

Note 1: Jinan Green was deregistered on 9 February 2017.

Note 2: Hui Yue was deregistered on 29 June 2020.

The amount due from Mr. Meng as at 30 June 2022 amounted to RMB8.0 million, represented a short-term interest-free loan to Mr. Meng. As at the Latest Practicable Date, such amount due from the controlling shareholder was fully settled by Mr. Meng.

The amount due to Mr. Meng as at 31 December 2019, which amounted to approximately RMB1.5 million, mainly represented the loans which were unsecured, non-interest-bearing and repayable on demand and were settled in December 2020.

The amount due to Mr. Meng increased to approximately RMB30.6 million 31 December 2020, which was resulted from the capital reduction of Shanghai Guanze in relation to the Reorganisation. For further details of the capital reduction, please refer to the paragraph headed "Reorganisation — Step 3: Reduction of registered capital of Shanghai Guanze" under the section headed "History, reorganisation and corporate structure" in this document. For the purpose of settling the amount due to Mr. Meng, on 13 September 2021, shareholders' resolutions were passed to approve the increase in registered capital of Shandong Guanze from RMB3.0303 million to RMB3.0333 million through a capital contribution of RMB25 million made by Mr. Meng. RMB3,000 of such capital injection was credited to the registered capital of Shandong Guanze and the remaining RMB24.997 million was credited to the capital reserve of Shandong Guanze. The amount was paid up in cash on 16 September 2021. Such increased portion of registered capital in the amount of RMB3,000, representing 0.1% of the equity interest in Shandong Guanze, was subscribed by Mr. Meng. For further details, please refer to the paragraph headed "Reorganisation — Step 9: Increase of registered capital of Shandong Guanze and capital contribution made by Mr. Meng'' under the section headed ''History, reorganisation and corporate structure'' in this document. As a result, the amount due to Mr. Meng decreased to approximately RMB4.6 million as at 31 December 2021. The amount due to Mr. Meng was fully settled as at 30 June 2022.

Jinan Green was controlled by Mr. Meng prior to its deregistration. The amount due to Jinan Green as at 31 December 2019 mainly represented the loans due to Jinan Green, which was unsecured, non-interest-bearing and repayable on demand, and were settled in December 2020.

Hui Yue was controlled by Mr. Meng who held his equity interest on behalf of his family member prior to its deregistration. The amount due to Hui Yue as at 31 December 2019 mainly represented the loan due to Hui Yue, which was unsecured, non-interest-bearing and repayable on demand, and was settled in May 2020.

For the details of the related parties, please refer to Note 29 to the Accountants' Report as set out in Appendix I to this document.

LIQUIDITY AND CAPITAL RESOURCES

Our primary use of liquidity have been (i) payments for our procurement costs; (ii) general operating expenses (excluding depreciation); and (iii) our income tax expenses. As at the Latest Practicable Date, we finance our cash requirements primarily through cash generated from our operating activities and bank loans.

Our bank borrowing contains certain standard covenants that are commonly found in lending arrangements with commercial banks. Our Directors have confirmed that we had not defaulted or delayed in any payment or breached any of the material covenants pertaining to our bank borrowing during the Track Record Period and up to the Latest Practicable Date.

We are able to manage liquidity risks by maintaining adequate reserves, banking facilities, continuously monitoring forecasted and actual cash flows and matching the maturity profiles of assets and liabilities. In the event that additional working capital is required for business expansion, we may approach other banks to obtain additional banking facilities and/or negotiate with our existing lenders for an increase in banking facilities. We do not foresee any deterioration of the credit markets or tightened monetary policies in the PRC and Hong Kong, which may result in an adverse impact on the banking facilities available to us. In the future, we expect that our working capital and other liquidity requirements will be satisfied through a combination of cash generated from our operating activities, banking facilities made available to us and the [REDACTED] from the [REDACTED].

[REDACTED]

The following table sets forth a summary of our consolidated statements of cash flows 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* (unaudited)	*RMB'000*
Operating cash flows before movements in working capital	31,732	43,501	40,078	20,672	24,814
Movements in working capital	(21,309)	(5,968)	(22,314)	(5,685)	(21,980)
Interest received	86	28	41	21	25
Interest paid	(47)	(784)	(584)	(305)	(653)
Income tax paid	(4,951)	(8,609)	(14,128)	(10,124)	(4,484)
Net cash generated from/(used in) operating activities	5,511	28,168	3,093	4,579	(2,278)
Net cash used in investing activities	(9,831)	(14,349)	(7,856)	(4,168)	(12,462)
Net cash generated from/(used in) financing activities	(3,868)	(14,792)	19,477	27,281	9,430
Net increase/(decrease) in cash and cash equivalents	(8,188)	(973)	14,714	27,692	(5,310)
Cash and cash equivalents at beginning of the year/period	14,682	6,494	5,521	5,521	20,235
Cash and cash equivalents at end of the year/period	6,494	5,521	20,235	33,213	14,925

Operating activities

Net cash generated from or used in operating activities mainly consists of profit before income tax adjusted for non-cash items, such as depreciation of property, plant and equipment, amortisation of intangible assets, finance costs and interest income, and the effects of changes in working capital, such as the increase or decrease in trade receivables, inventories and trade payables, and the effects of interest received, interest paid and income tax paid.

Net cash flows generated from operating activities for the year ended 31 December 2019 were approximately RMB5.5 million, primarily attributable to our profit before taxation of RMB29.6 million, as adjusted primarily by (i) depreciation of property, plant and equipment of approximately RMB1.1 million; (ii) amortisation of intangible asset of approximately RMB816,000; and (iii) income tax paid of approximately RMB5.0 million. Changes in working capital mainly included (i) increase in inventories of approximately RMB13.0 million; (ii) increase in prepayments, other receivables and other assets of approximately RMB7.1 million; (iii) decrease in other payables and accruals of approximately RMB4.9 million, as partially offset by the decrease in trade receivables of approximately RMB4.3 million.

Net cash flows generated from operating activities for the year ended 31 December 2020 were approximately RMB28.2 million, primarily attributable to our profit before taxation of RMB39.0 million, as adjusted primarily by (i) finance cost of approximately RMB789,000; (ii) depreciation of property, plant and equipment of approximately RMB2.2 million; and (ii) amortisation of intangible asset of approximately RMB824,000. Changes in working capital mainly included (i) increase in trade and bill receivables of approximately RMB27.0 million; and (ii) decrease in contract liabilities of approximately RMB926,000, as partially offset by (i) decrease in inventories of approximately RMB12.4 million; (ii) decrease in prepayments, other receivables and other assets of approximately RMB6.5 million; (iii) increase in trade payables of approximately RMB2.6 million; and (iv) increase in other payables and accruals of approximately RMB308,000.

Net cash flows generated from operating activities for the year ended 31 December 2021 were approximately RMB3.1 million, primarily attributable to our profit before taxation of RMB33.1 million, as adjusted primarily by (i) finance cost of approximately RMB597,000; (ii) depreciation of property, plant and equipment of approximately RMB3.3 million; (iii) amortisation of intangible assets of approximately RMB833,000; and (iv) share-based payment of approximately RMB2.1 million. Changes in working capital mainly included (i) increase in trade and bills receivables of approximately RMB40.5 million; and (ii) decrease in contract liabilities of approximately RMB2.4 million, as partially offset by (i) decrease in inventories of approximately RMB9.1 million; and (ii) increase in trade payables of approximately RMB12.0 million.

Net cash flows generated from operating activities for the six months ended 30 June 2021 were approximately RMB4.6 million, primarily attributable to our profit before taxation of approximately RMB16.0 million, as adjusted primarily by (i) finance costs of approximately RMB313,000; (ii) depreciation of property, plant and equipment of approximately RMB1.5 million; and (iii) share-based payment of approximately RMB2.1 million. Changes in working capital mainly included increase in trade and bills receivables of approximately RMB26.4 million, as partially offset by (i) decrease in inventories of approximately RMB10.4 million; and (ii) increase in trade payables of approximately RMB11.8 million.

Net cash flows used in operating activities for the six months ended 30 June 2022 were approximately RMB2.3 million, primarily attributable to our profit before taxation of approximately RMB21.5 million, as adjusted primarily by (i) finance costs of approximately RMB658,000; and (ii) depreciation of property, plant and equipment of approximately RMB2.0 million. Changes in working capital mainly included (i) increase in trade and bills receivables of approximately RMB29.7 million; (ii) increase in prepayments, other receivables and other assets of approximately RMB2.9 million; and (iii) decrease in trade payables of approximately RMB2.8 million, as partially offset by the decrease in inventories of approximately RMB9.1 million. The net cash flow used in operating activities was primarily resulted from (i) the cash outflow of approximately RMB2.8 million during the six months ended 30 June 2022 as we repaid the amount due to our suppliers in relation to the purchase of, among others, raw materials; and (ii) the decrease in cash generated from operations as most of our trade receivables were not fall due during the six months ended 30 June 2022.

To improve our liquidity, we seek to (i) control cash outflows by controlling our costs; (ii) plan and monitor our cash flow situation on a regular basis; (iii) closely monitor the collection status of our trade receivables and enhance our collection efforts on trade receivables by deploying more staff to liaise for the collection of receivable on a more frequent basis; (iv) request for longer credit period from our suppliers if possible; and (v) maintain stable relationships with our principal bankers such that we are able to obtain bank facilities where necessary. For further details of our liquidity management measures, please refer to the paragraph headed ‘‘Liquidity management measures’’ below in this section.

Investing activities

Net cash flows used in investing activities for the year ended 31 December 2019 were approximately RMB9.8 million, which is attributable to (i) purchase and prepayment of items of property, plant and equipment of approximately RMB7.5 million; and (ii) purchase of intangible assets of approximately RMB2.3 million, which represented payment for previously capitalised development cost.

Net cash flows used in investing activities for the year ended 31 December 2020 were approximately RMB14.3 million, which primarily attributable to (i) purchase and prepayment of items of property, plant and equipment of approximately RMB11.5 million; (ii) purchase of right-of-use assets of approximately RMB2.8 million; and (iii) purchase of intangible assets of approximately RMB27,000, which represented payment for previously capitalised development cost.

Net cash flows used in investing activities for the year ended 31 December 2021 was approximately RMB7.9 million, which primarily represented our cash used in purchases and prepayment for property, plant and equipment of approximately RMB7.8 million.

Net cash flows used in investing activities for the six months ended 30 June 2021 were approximately RMB4.2 million, which represented (i) the purchases and prepayment of property, plant and equipment of approximately RMB4.1 million; and (ii) the purchases of intangible assets of approximately RMB45,000.

Net cash flows used in investing activities for the six months ended 30 June 2022 were approximately RMB12.5 million, which represented (i) increase in due from controlling shareholder of RMB8.0 million; (ii) the purchases and prepayment of property, plant and equipment of approximately RMB4.5 million.

Financing activities

Net cash used in financing activities for the year ended 31 December 2019 were approximately RMB3.9 million, which is primarily attributable to (i) repayment of loans to related parties of approximately RMB54.1 million; and (ii) repayment to the controlling shareholder of approximately RMB5.0 million, as partially offset by (i) loans received from related parties of approximately RMB45.3 million; (ii) advance from the controlling shareholder of approximately RMB4.2 million; and (iii) capital contributions by the then shareholders of a subsidiary of approximately RMB4.9 million.

Net cash used in financing activities for the year ended 31 December 2020 were approximately RMB14.8 million, which is primarily attributable to (i) repayment of loans to related parties of approximately RMB46.3 million; (ii) repayment to the controlling shareholder of approximately RMB2.0 million; (iii) repayment of bank loans of approximately RMB9.0 million; and (iv) payment of capital reduction of approximately RMB9.2 million, as partially offset by (i) capital contributions by the then shareholders of a subsidiary of approximately RMB33.2 million; and (ii) new bank loans of approximately RMB16.3 million.

Net cash flows generated from financing activities for the year ended 31 December 2021 was approximately RMB19.5 million, which was primarily attributable to (i) new bank loans of approximately RMB15.0 million; (ii) capital contributions by the then shareholders of subsidiaries of approximately RMB25.0 million; and (iii) investment from a new shareholder of approximately RMB14.4 million, as partially offset by (i) the repayment to the controlling shareholder of approximately RMB26.0 million; and (ii) repayment of bank loans of RMB8.3 million.

Net cash flows generated from financing activities for the six months ended 30 June 2021 were approximately RMB27.3 million, which were primarily attributable to (i) loans from the controlling shareholder of approximately RMB11.4 million; (ii) new bank loans of RMB6.0 million; and (iii) investment from a new shareholder of approximately RMB14.4 million, as partially offset by the repayment of bank loans of approximately RMB4.0 million.

Net cash flows generated from financing activities for the six months ended 30 June 2022 were approximately RMB9.4 million, which were primarily attributable to new bank loans of approximately RMB17.1 million, as partially offset by (i) repayment to controlling shareholder of approximately RMB4.6 million; and (ii) repayment of bank loans of RMB3.0 million.

Net current assets

	As at 31 December			As at 30 June	As at 31 October
	2019	2020	2021	2022	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
CURRENT ASSETS					
Inventories	34,231	21,632	12,571	3,428	15,000
Trade and bills receivables	69,870	96,630	137,249	166,861	160,958
Prepayments, other receivables and other assets	9,408	2,084	3,433	6,340	5,902
Due from the controlling shareholder	—	—	—	8,000	—
Cash and cash equivalents	6,494	5,521	20,235	14,925	36,381
Total current assets	120,003	125,867	173,488	199,554	218,241
CURRENT LIABILITIES					
Trade payables	160	2,777	14,811	12,028	11,931
Contract liabilities	4,559	3,633	1,263	4,053	2,854
Other payables and accruals	2,307	2,615	2,641	4,154	6,062
Interest-bearing bank borrowings	1,000	4,721	15,000	29,052	29,393
Due to the controlling shareholder	1,509	30,642	4,582	—	—
Due to related parties	46,270	—	—	—	—
Lease liabilities	32	69	66	55	—
Tax payables	5,750	7,176	2,974	4,613	7,259
Total current liabilities	61,587	51,633	41,337	53,955	57,499
NET CURRENT ASSETS	58,416	74,234	132,151	145,599	160,742

Our net current assets increased from approximately RMB58.4 million as at 31 December 2019 to approximately RMB74.2 million as at 31 December 2020 due to (i) the increase in trade and bills receivables of approximately RMB26.8 million; and (ii) the absence of due to related parties of approximately RMB46.3 million due to repayment, as partially offset by (i) the decrease in inventories of approximately RMB12.6 million; (ii) the decrease in prepayments, other receivables and other assets of approximately RMB7.3 million; (iii) the increase in trade payables of approximately RMB2.6 million; (iv) the increase in interest-bearing bank borrowings of approximately RMB3.7 million; (v) the increase in due to controlling shareholder of approximately RMB29.1 million; and (vi) the increase in tax payables of approximately RMB1.5 million.

Our net current assets further increased from approximately RMB74.2 million as at 31 December 2020 to approximately RMB132.2 million as at 31 December 2021, which was mainly attributable to (i) the increase in trade and bills receivables of approximately RMB40.6 million; (ii) the increase in prepayments, other receivables and other assets of approximately RMB1.3 million; (iii) the increase in cash and cash equivalents of approximately RMB14.7 million; (iv) the decrease in tax payables of approximately RMB4.2 million; and (v) the decrease in due to the controlling shareholder of approximately RMB26.0 million as partially offset by (i) the decrease in inventories of approximately RMB9.1 million; (ii) the increase in trade payables of approximately RMB12.0 million; and (iii) the increase in short-term interest-bearing bank borrowing of approximately RMB10.3 million.

Our net current assets increased from approximately RMB132.2 million as at 31 December 2021 to approximately RMB145.6 million as at 30 June 2022, which was primarily attributable to (i) the increase in our trade receivables of approximately RMB29.6 million; and (ii) the occurrence of amount due from a shareholder of RMB8.0 million, as partially offset by (i) the increase in interest-bearing bank borrowing of approximately RMB14.1 million; and (ii) the decrease in inventories of approximately RMB9.1 million.

Our net current assets slightly increased from approximately RMB145.6 million as at 30 June 2022 to approximately RMB160.7 million as at 31 October 2022, which was primarily attributable to the increase in inventories of approximately RMB11.6 million, as partially offset by (i) the repayment of amount due from the controlling shareholder of RMB8 million; and (ii) the increase in tax payables of approximately RMB2.6 million was mainly due to the increase of the provision of outstanding enterprise income tax payable in relation to our sales.

Liquidity management measures

According to CIC, public hospitals customers usually required a lengthy credit period as public hospitals generally tend to prioritise the use of their capital for other purpose and it is an industry norm that medical product suppliers like us usually offer a long credit period for downstream hospital customers. Our Group's trade receivables turnover days for the three years ended 31 December 2021 and the six months ended 30 June 2022 were approximately 179 days, 149 days, 181 days and 251 days respectively. On the other hand, the trade payables turnover days for the three years ended 31 December 2021 and the six months ended 30 June 2022 were approximately 1 day, 4 days, 24 days and 41 days, respectively. Such gap between accounts receivable turnover days and accounts payable turnover days may result in liquidity mismatch.

In view of the cash flow mismatch our Group have put in place the following measures to strengthen our liquidity management:

— we closely monitor and strengthen our liquidity position, both in short run and long run by evaluating the sufficiency of the working capital and the utilisation of borrowings regularly. The bank balance are monitored by the management through our internal records. When there is a potential shortfall in our cash position being identified, we would strive to negotiate for early settlement from our customers and/or request a longer credit period from our suppliers in order to mitigate the mismatches of trade receivable turnover days and trade payable turnover days;

— we closely monitor the ageing analysis of both trade receivables and payables continuously. We will then actively follow up with our customers for overdue receivables; and

— for the trade receivables past due, material overdue payments are monitored continuously and evaluated on a case-by-case basis with appropriate follow-up actions based upon the customer's normal payment processing procedures, our relationship with the customer, its history of making payments, its financial position as well as the general economic environment. Follow-up actions to recover overdue trade receivables include (i) active communications with the customers' appropriate personnel such as the relevant department responsible for processing payments; (ii) stop processing any further purchase orders from such customer until the overdue balance is recovered; (iii) review the recoverable amount of each individual trade receivable balance at the end of each reporting period to ensure adequate impairment losses are provided for irrecoverable amounts; and (iv) seeking legal advices when necessary.

Working capital sufficiency

As at 31 December 2019, 2020, 2021 and 30 June 2022, we had cash and cash equivalents of approximately RMB6.5 million, RMB5.5 million, RMB20.2 million and RMB14.9 million, respectively.

Taking into consideration the financial resources presently available to us, including the balance of cash and cash equivalents, expected cash generated from our operations and the estimated [REDACTED] from the [REDACTED], which were approximately RMB[REDACTED] million, our Directors are satisfied that after due and careful inquiry, we will have sufficient working capital for our present working capital requirements for at least the next 12 months from the date of this document.

Our Directors confirm that there was no material defaults in payment of trade and non-trade payables and bank borrowings, and/or breaches of finance covenants during the Track Record Period.

CAPITAL EXPENDITURES

Our Group's capital expenditures principally consisted of additions of property, plant and equipment for our operations. For each of the three years ended 31 December 2021 and the six months ended 30 June 2022, our Group incurred capital expenditures of approximately RMB7.5 million, RMB11.5 million, RMB7.8 million and RMB4.5 million, respectively, which were primarily resulted from the additions of plant and machinery for daily operation. Since 30 June 2022 and up to the Latest Practicable Date, we did not have any material capital expenditures. We financed our capital expenditures primarily through our cash generated from our operating activities.

INDEBTEDNESS

The table below sets out our borrowings as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 October
	2019	2020	2021	2022	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Bank loan — unsecured-current	1,000	4,290	12,000	14,500	14,500
Bank loan — secured-current portion	—	431	—	—	—
Bank loan — secured-current	—	—	3,000	14,552	14,857
Bank loan — secured-non-current	—	3,592	—	—	—
Lease liabilities	32	289	220	55	158
Due to the controlling shareholder	1,509	30,642	4,582	—	—
Due to related parties	46,270	—	—	—	—
	48,811	39,244	19,802	29,107	29,515

As at 31 October 2022, being the latest practicable date for determining our indebtedness, our Group's total indebtedness amounted to approximately RMB29.5 million, consisting of (i) secured bank loan of approximately RMB14.9 million; (ii) unsecured bank loan of approximately RMB14.5 million; and (iii) lease liabilities of approximately RMB158,000. There were no material covenants relating to the outstanding balances.

Our interest-bearing bank loans and borrowing bore an effective interest rate of 5.00% per annum as of 31 December, 2019, ranging from 3.85% to 6.87% per annum as of 31 December 2020, ranging from 3.85% to 4.60% per annum as of 31 December 2021 and ranging from 3.85% to 4.50% per annum as at 30 June 2022.

For the purpose of settling the amount due to Mr. Meng, on 13 September 2021, shareholders' resolutions were passed to approve the increase in registered capital of Shandong Guanze from RMB3.0303 million to RMB3.0333 million through a capital contribution of RMB25 million made by Mr. Meng. RMB3,000 of such capital injection was credited to the registered capital of Shandong Guanze and the remaining RMB24.997 million was credited to the capital reserve of Shandong Guanze. The amount was paid up in cash on 16 September 2021. Such increased portion of registered capital in the amount of RMB3,000, representing 0.1% of the equity interest in Shandong Guanze, was subscribed by Mr. Meng.

For further details, please refer to the paragraph headed "Reorganisation — Step 9: Increase of registered capital of Shandong Guanze and capital contribution made by Mr. Meng" under the section headed "History, reorganisation and corporate structure" in this document.

As at the 31 October 2022, we did not have unutilised banking facility. Our Directors confirm that there had been no material change in our indebtedness since 31 October 2022 up to the Latest Practicable Date.

Save as disclosed above, as at 31 October 2022, we did not have any other borrowings, mortgages, charges, debentures or debt securities, issued or outstanding, or authorised or otherwise created but unissued, or other similar indebtedness, finance lease commitment, liabilities under acceptances, acceptance credits, hire purchase commitments, material contingent liabilities or guarantees.

During the Track Record Period, we did not experience any delay or default in repayment of borrowings nor experience any difficulty in obtaining borrowings with terms that are commercially acceptable to us. As at the Latest Practicable Date, we did not have any plan for additional external debt financing.

KEY FINANCIAL RATIOS

The following table sets forth our certain key financial ratios as at the dates indicated:

	For the year ended/As at 31 December			For the six months ended/As at 30 June
	2019	**2020**	**2021**	**2022**
Return on equity[1]	30.0%	29.5%	14.2%	N/A[6]
Return on total assets[2]	16.4%	18.9%	11.2%	N/A[6]
Current ratio[3]	1.9	2.4	4.2	3.7
Quick ratio[4]	1.2	2.0	3.8	3.5
Gearing ratio[5]	1.3%	8.4%	9.2%	16.3%

Notes:

(1) Profit attributable to owners of our Company for the year divided by total equity attributable to owners of our Company.

(2) Profit attributable to owners of our Company for the year divided by total assets.

(3) Current assets divided by current liabilities and multiplied by 100%.

(4) Current assets less inventories and prepayments, other receivables and other assets and divided by current liabilities and multiplied by 100%.

(5) Total debt (including interest-bearing bank and other borrowings) divided by total equity and multiplied by 100%.

(6) Such ratios for the six months ended 30 June 2022 are not meaningful and potentially misleading as such ratios do not reflect a full year of operations.

Return on equity

Our return on equity remained stable at approximately 30.0% for the year ended 31 December 2019 and approximately 29.5% for the year ended 31 December 2020.

Our return on equity significantly decreased from approximately 29.5% for the year ended 31 December 2020 to approximately 14.2% for the year ended 31 December 2021, primarily attributable to (i) the decrease in our profit for the year for the reasons mentioned in the paragraphs headed ''Management's discussion and analysis of the results of our operation'' in this section above; and (ii) the significant increase in our total equity due to the capital contribution of RMB25 million to Shandong Guanze by Mr. Meng and the subscription of Shares by Billion Vantage at a consideration of HK$16.5 million.

Return on total assets

Our return on total assets increased from 16.4% for the year ended 31 December 2019 to 18.9% for the year ended 31 December 2020, primarily because of the increase in our net profit for the reasons mentioned in the paragraphs headed ''Management's discussion and analysis of the results of our operation'' in this section above.

Our return on total assets decreased from approximately 18.9% for the year ended 31 December 2020 to approximately 11.2% for the year ended 31 December 2021, primarily attributable to the decrease in our profit for the year for the reasons mentioned in the paragraphs headed ''Management's discussion and analysis of the results of our operation'' in this section above.

Current ratio

Our current ratio increased from 1.9 as at 31 December 2019 to 2.4 as at 31 December 2020, mainly due to the increase in our current asset and decrease in our current liabilities as described in the paragraphs headed ''Discussion of certain items from the consolidated statements of financial position'' in this section above.

Our current ratio increased from approximately 2.4 as at 31 December 2020 to approximately 4.2 as at 31 December 2021, primarily attributable to (i) the significant increase in cash and cash equivalent resulted from the capital contribution from Mr. Meng; and (ii) the settlement of the amount due to Mr. Meng.

Our current ratio decreased from approximately 4.2 as at 31 December 2021 to approximately 3.7 as at 30 June 2022, which was primarily attributable to the (i) the decrease in inventories of approximately RMB9.1 million; (ii) the decrease in cash and cash equivalents of approximately RMB5.3 million; and (iii) the increase in interest-bearing bank borrowings of approximately RMB14.1 million.

Quick ratio

Our quick ratio was approximately 1.2, 2.0, 3.8 and 3.5 as at 31 December 2019, 2020, 2021 and 30 June 2022, respectively. The fluctuation of our quick ratio were generally in line with the fluctuation of our current ratio.

Gearing ratio

Our gearing ratio increased from 1.3% as at 31 December 2019 to 8.4% as at 31 December 2020. The increase in our gearing ratio was mainly due to the increase in our interest bearing bank borrowings.

Our gearing ratio increased slightly from approximately 8.4% as at 31 December 2020 to approximately 9.2% as at 31 December 2021, primarily attributable to the combined effect of (i) the significant increase in interest-bearing bank borrowings; and (ii) the significant increase in our total equity due to the capital contribution of RMB25 million to Shandong Guanze by Mr. Meng and the subscription of share by Billion Vantage at a consideration of HK$16.5 million.

Our gearing ratio increased from approximately 9.2% as at 31 December 2021 to approximately 16.3% for the six months ended 30 June 2022, which was primarily because the balance of interest-bearing borrowing increased from approximately RMB15.0 million as at 31 December 2021 to approximately RMB29.1 million as at 30 June 2022.

COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

We had various lease contracts that had not yet commenced during the Track Record Period. As of 31 December 2019, 2020, 2021 and 30 June 2022, the future lease payments for these non-cancellable lease contracts in the consolidated financial statements were approximately RMB48,000, RMB322,000, RMB240,000, and RMB149,000, respectively.

Contingent liabilities

As at 31 December 2019, 2020, 2021 and 30 June 2022, we had no outstanding contingent liabilities. We currently are not a party to any litigation that is likely to have a material adverse impact on our business, results of operations or financial condition. Our Directors confirm there has no material change in our contingent liabilities since 30 June 2022 and up to Latest Practicable Date.

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, we have not entered into any off-balance sheet arrangements or commitments to guarantee the payment obligations of any third-parties. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

RISK MANAGEMENT

In the normal course of business, we are exposed to various types of risks from changes in market rate and prices, including the interest rate, foreign currency, credit and liquidity.

Details of the risk to which we are exposed are set out in note 32 of the Accountants' Report as contained in Appendix I to this document.

DIVIDENDS

During the Track Record Period and up to the Latest Practicable Date, no dividend had been paid nor declared by our Company.

We currently do not have a dividend policy. There is no expected or predetermined dividend payout ratio after the [REDACTED]. The payment and the amount of any future dividends will be at the discretion of our Directors and will depend upon our Group's future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors deem relevant. Any final dividend for a financial year will be subject to Shareholders' approval. Holders of our Shares will be entitled to receive such dividends pro rata according to the amounts paid up on our Shares.

Dividends may be paid only out of our Company's distributable profits as permitted under the relevant laws. There can be no assurance that our Company will be able to declare or distribute in the amount set out in any plan of our Board or at all. The past dividend distribution record may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Company in the future.

DISTRIBUTABLE RESERVES

As at 30 June 2022, the aggregate amount of reserves available for distribution to the equity holders of our Company amounted to RMB115.5 million.

UNAUDITED [REDACTED] ADJUSTED NET TANGIBLE ASSETS

The following unaudited [REDACTED] adjusted consolidated net tangible assets of the Group has been prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules and with reference to Accounting Guideline 7 "*Preparation of [REDACTED] Financial Information for Inclusion in Investment Circulars*" issued by the HKICPA for illustration purposes only, and is set out here to illustrate the effect of the [REDACTED] on our consolidated net tangible assets as of 30 June 2022 as if it had taken place on that day.

The unaudited [REDACTED] adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the [REDACTED] been completed as at 30 June 2022 or any future dates.

It is prepared based on our consolidated net tangible assets as of 30 June 2022 as set out in the Accountants' Report as set out in Appendix I to this document, and adjusted as described below. The unaudited [REDACTED] adjusted consolidated net tangible assets does not form part of the Accountants' Report as set out in Appendix I to this document.

	Audited consolidated net tangible assets attributable to equity holders of our Company as at 30 June 2022(1)	Estimated [REDACTED] from the [REDACTED](2)	Unaudited [REDACTED] adjusted net tangible assets	Unaudited [REDACTED] adjusted net tangible assets per Share(3)	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
Based on an [REDACTED] of HK$[REDACTED] per Share	177,132	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK$[REDACTED] per Share	177,132	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

(1) The consolidated net tangible assets attributable to equity holders of our Company as at 30 June 2022 is extracted from the accountants' report as set out in Appendix I to this document, which is based on the audited consolidated net assets attributable to equity holders as at 30 June 2022 of RMB177,713,000 with an adjustment for intangible assets attributable to equity holders of RMB581,000 (total intangible assets of RMB587,000 deducting 1.09% minority interest) as at 30 June 2022.

(2) The estimated [REDACTED] from the [REDACTED] are based on an [REDACTED] of HK$[REDACTED] per Share or HK$[REDACTED] per Share after deduction of the [REDACTED] fees and related expenses payable by our Group. For the purpose of calculating the estimated [REDACTED] from the [REDACTED] in Renminbi, the translation of Hong Kong dollars into Renminbi was made at the rate of HK$1 to RMB0.90444.

(3) The unaudited [REDACTED] adjusted consolidated net tangible assets per Share are based on [REDACTED] Shares expected to be in issue following the completion of the [REDACTED] assuming that the [REDACTED] has been completed on or before 30 June 2022 without taking into account any shares which may be issued upon exercise of the [REDACTED].

(4) No adjustment has been made to reflect any trading results or open transactions of the Group entered into subsequent to 30 June 2022.

[REDACTED] EXPENSES

Assuming the [REDACTED] is not exercised, the total [REDACTED] expenses in connection with the [REDACTED], which include professional fees, [REDACTED] and fees, assuming an [REDACTED] of HK$[REDACTED] per [REDACTED], being the mid-point of the proposed [REDACTED] range, are estimated to be RMB[REDACTED] million, which are estimated to be approximately [REDACTED]% of the [REDACTED] from the [REDACTED]. During the years ended 31 December 2020 and 2021 and the six months ended 30 June 2022, the [REDACTED] expenses we incurred amounted to approximately RMB[REDACTED] million, RMB[REDACTED] million and RMB[REDACTED] million, respectively. We expect to further incur [REDACTED] expenses of RMB[REDACTED] million prior to and upon completion of the [REDACTED], of which (i) RMB[REDACTED] million is expected to be recognised as expenses in our consolidated statement of profit or loss and other comprehensive income for the year ending 31 December 2022; and (ii) RMB[REDACTED] million is expected to be accounted for as a deduction from equity upon [REDACTED] under the relevant accounting standards. The decrease in our forecast profit for the year ending 31 December 2022 is primarily attributable to our [REDACTED] expenses.

The total [REDACTED] expenses mainly comprise of professional fees paid and payable to the professional parties for their services rendered in relation to the [REDACTED] and the [REDACTED] which are [REDACTED] related expenses, including fees for legal advisers and reporting accountants of approximately RMB[REDACTED] million, and other [REDACTED]-related fees and expenses of approximately RMB[REDACTED] million, as well as the [REDACTED]-related expenses (including SFC transaction levy, Stock Exchange trading fee and AFRC transaction levy) of approximately RMB[REDACTED] million, payable to the [REDACTED] in connection with the [REDACTED] of Shares under the [REDACTED].

Our Directors would like to emphasise that the [REDACTED] expenses stated above are the current estimation for reference purpose and the actual amount to be recognised is subject to adjustments based on audit and the then changes in variables and assumptions. Prospective investors should note that the financial performance of our Group for the year ending 31 December 2022 would be materially and adversely affected by the [REDACTED] expenses mentioned above.

DISCLOSURE PURSUANT TO RULES 13.13 TO 13.19 OF THE LISTING RULES

We confirm that, as at the Latest Practicable Date, we were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to Rules 13.19 of the Listing Rules.

RECENT DEVELOPMENT AND SUBSEQUENT EVENTS AFTER THE TRACK RECORD PERIOD

Subsequent to the Track Record Period and up to the Latest Practicable Date, we have continued to focus on our medical imaging film products and medical imaging cloud services business and there had not been any material change to our business model, revenue structure and cost structure. We continue to explore opportunities for our business through participating in different exhibitions.

Our Directors confirmed that, since 30 June 2022 and up to the date of this document, (i) there had been no material adverse change in the market conditions or the industry and environment in which we operate that materially and adversely affect our financial or operating position; (ii) there was no material adverse change in the trading and financial position or prospects of our Group; and (iii) no event had occurred that would materially and adversely affect the information shown in the Accountants' Report set out in Appendix I to this document.

DIRECTORS' CONFIRMATION ON NO MATERIAL ADVERSE CHANGE

Save for the [REDACTED] expenses as disclosed in the paragraph "[REDACTED] Expenses" above and the events after the Track Record Period as set out in Note 33 of the Accountants' Report in Appendix I in this document, our Directors confirm that they have performed sufficient due diligence on our Company to ensure that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since 30 June 2022, the date of the latest audited financial statements of our Company, and there has been no events since 30 June 2022 which would materially affect the information shown in the Accountants' Report, the text of which is set out in Appendix I to this document.