

FUTURE PLANS AND USE OF [REDACTED]

FUTURE PLANS AND PROSPECTS

Please refer to “Business — Our Business Strategies” in this document for a detailed description of our future plans.

The aggregate [REDACTED] from the [REDACTED] (after deducting [REDACTED] fees and estimated expenses payable in connection with the [REDACTED] and assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the indicative range of the [REDACTED] of HK\$[REDACTED] to HK\$[REDACTED] per Share, and assuming the [REDACTED] is not exercised) will be approximately HK\$[REDACTED] million. Our Directors intend to apply the [REDACTED] from the [REDACTED] as follows:

- (1) approximately HK\$[REDACTED] million (representing approximately [REDACTED]% of the [REDACTED]) will be used to expand our customer base and further consolidate our market presence in Shandong Province by expanding to the eastern part of Shandong Province. For further details, please refer to the paragraph headed “Business — Our Business Strategies — Expand our customer base and further consolidate our market presence in Shandong Province by expanding to the eastern part of Shandong Province” in this document;
- (2) approximately HK\$[REDACTED] million (representing approximately [REDACTED]% of the [REDACTED]) will be used to enhance the delivery of our medical imaging cloud services through strategic acquisition, obtaining the medical device registration certificate and upgrade of our hardware and software. In choosing our acquisition targets, we may consider a target that: (i) has reached a revenue of more than RMB3 million; (ii) has a geographical coverage in China that is complementary to our business and strategies; (iii) has an operational history and track record of more than three years; and (iv) is valued at RMB20 million to RMB40 million, depending on market conditions, industry development and valuation benchmarks. As at the Latest Practicable Date, the Group had not identified any definite target company for the acquisition. For further details, please refer to the paragraph headed “Business — Our Business Strategies — Enhance the delivery of our medical imaging cloud services through strategic acquisition, obtaining the medical device registration certificate and upgrade of our hardware and software” in this document;
- (3) approximately HK\$[REDACTED] million (representing approximately [REDACTED]% of the [REDACTED]) will be used to horizontally expand our value chain by broadening our product offerings. For further details, please refer to the paragraph headed “Business — Our Business Strategies — Horizontally expand our value chain by broadening our product offerings” in this document;
- (4) approximately HK\$[REDACTED] million (representing approximately [REDACTED]% of the [REDACTED]) will be used to continue to promote our brands and increase market awareness by participating in exhibitions. For further details, please refer to the paragraph headed “Business — Our Business Strategies — Continue to promote our brands and increase market awareness by participating in exhibitions” in this document;
- (5) approximately HK\$[REDACTED] million (representing approximately [REDACTED]% of the [REDACTED]) will be used to upgrade our information technology systems. For further details, please refer to the paragraph headed “Business — Our Business Strategies — Upgrade our information technology systems” in this document; and

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- (6) the remaining balance of approximately HK\$[REDACTED] million (representing approximately [REDACTED]% of the [REDACTED]) will be used for additional working capital and other general corporate purposes.

IMPLEMENTATION PLAN

The following table sets our approximate amount, sources of funding, key milestones and timeframe for each strategic plan. Our actual course of business may vary from the business strategies set forth in this document due to unforeseeable events, and there can be no assurance that we will accomplish our business strategies in a timely manner, or at all.

Major category	Implementation activities	Key milestones and [REDACTED]		
		Amount of [REDACTED]	Percentage of total [REDACTED]	Intended timeframe and approximate amount
Expand our customer base and further consolidate our market presence in Shandong Province by expanding to the eastern part of Shandong Province	• Setting up sales office and warehouse in Qingdao	HK\$[REDACTED] million	[REDACTED]%	2023: HK\$[REDACTED] million 2024: HK\$[REDACTED] million 2025: HK\$[REDACTED] million
	• Purchasing medical imaging printers from different brands or OEM manufacturers and front-end processors for provision of medical imaging cloud services	HK\$[REDACTED] million	[REDACTED]%	2023: HK\$[REDACTED] million 2024: HK\$[REDACTED] million 2025: HK\$[REDACTED] million
	• Recruiting additional staff to form a new sales team and engineering team in Qingdao	HK\$[REDACTED] million	[REDACTED]%	2023: HK\$[REDACTED] million 2024: HK\$[REDACTED] million
Enhance the delivery of our medical imaging cloud services through strategic acquisition, obtaining the medical device registration certificate and upgrade of our hardware and software	• Acquiring (i) a company which possesses the technical know-how of developing PACS system and medical imaging cloud storage platform and (ii) a start-up company in AI healthcare industry, which possesses the technical know-how of building an AI system relating to providing a medical diagnosis recommendation by analysing the historical medical images	HK\$[REDACTED] million	[REDACTED]%	2023: HK\$[REDACTED] million 2024: HK\$[REDACTED] million
	• Obtaining the medical device registration certificate for the AI-aided diagnosis system to be developed	HK\$[REDACTED] million	[REDACTED]%	2024: HK\$[REDACTED] million
	• Upgrading our hardware and software	HK\$[REDACTED] million	[REDACTED]%	2023: HK\$[REDACTED] million 2024: HK\$[REDACTED] million 2025: HK\$[REDACTED] million

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Key milestones and [REDACTED]

Major category	Implementation activities	Amount of [REDACTED]	Percentage of total [REDACTED]	Intended timeframe and approximate amount	
Horizontally expand our value chain by broadening our product offerings	• Registering our self-branded mobile X-ray system	HK\$[REDACTED] million	[REDACTED]%	2025: HK\$[REDACTED] million	
	• Registering our self-branded high pressure injector	HK\$[REDACTED] million	[REDACTED]%	2024: HK\$[REDACTED] million 2025: HK\$[REDACTED] million	
Continue to promote our brands and increase market awareness by participating in exhibitions	• Participating in the China International Medical Equipment Fair in Shenzhen and Shanghai	HK\$[REDACTED] million	[REDACTED]%	2023: HK\$[REDACTED] million 2024: HK\$[REDACTED] million 2025: HK\$[REDACTED] million	
	• Participating in the China International Medical Equipment Exhibition in Jinan	HK\$[REDACTED] million	[REDACTED]%	2023: HK\$[REDACTED] million 2024: HK\$[REDACTED] million 2025: HK\$[REDACTED] million	
	• Expanding the features and functionalities of our enterprise resources planning system		HK\$[REDACTED] million	[REDACTED]%	2023: HK\$[REDACTED] million 2024: HK\$[REDACTED] million 2025: HK\$[REDACTED] million
		• Upgrading our in-house technology infrastructure	HK\$[REDACTED] million	[REDACTED]%	2023: HK\$[REDACTED] million 2024: HK\$[REDACTED] million 2025: HK\$[REDACTED] million

If the [REDACTED] is fixed at the high-end of the indicative range of the [REDACTED], being HK\$[REDACTED] per Share, the [REDACTED] we receive from the [REDACTED] will increase by approximately HK\$[REDACTED] million. We intend to apply the additional [REDACTED] for the above purposes on a pro-rata basis. If the [REDACTED] is set at the low-end of the indicative range of the [REDACTED], being HK\$[REDACTED] per Share, the [REDACTED] we receive from the [REDACTED] will decrease by approximately HK\$[REDACTED] million. We intend to reduce the [REDACTED] for the above purposes on a pro-rata basis.

If the [REDACTED] is exercised in full, we estimate that the additional [REDACTED] from the [REDACTED] of these additional Shares to be received by us, after deducting [REDACTED] fees and estimated expenses payable by it, will be approximately (i) HK\$[REDACTED] million, assuming the [REDACTED] is fixed at the high-end of the indicative range of the [REDACTED], being HK\$[REDACTED] per Share; (ii) HK\$[REDACTED] million, assuming the [REDACTED] is fixed at the mid-point of the indicative range of the [REDACTED], being HK\$[REDACTED] per Share; and (iii) HK\$[REDACTED] million, assuming the [REDACTED] is fixed at the low-end of the indicative range of the [REDACTED], being HK\$[REDACTED] per Share. Any additional [REDACTED] received by us from the exercise of the [REDACTED] will also be allocated to the above businesses and projects on a pro-rata basis.

To the extent that the [REDACTED] are not immediately applied to the above purposes and to the extent permitted by applicable laws and regulations, we intend to deposit the [REDACTED] into short-term deposits at licenced commercial banks and/or other authorised financial institutions (as defined

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under the Securities and Futures Ordinance) in Hong Kong. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules. We will issue an appropriate announcement if there is any material change to the above proposed use of [REDACTED].

REASONABLENESS AND FEASIBILITY OF OUR EXPANSION PLAN

We believe that our expansion plan is reasonable and feasible given that there is sufficient demand on our products and services and we are able to capture the demand in the new market on the following grounds:

- (i) **Growing demand of medical imaging films in China and Shandong Province:** Given the medical imaging scan volume in China and in Shandong Province grew from 2,166.3 million and 155.8 million in 2016 to 2,933.0 million and 211.1 million in 2021, and is expected to grow to 4,313.4 million and 314.2 million in 2030, respectively, according to CIC, and coupled with the relevant government policies and guidelines as detailed in “(v) Supportive government policies” below, which suggested that physical medical imaging films cannot be completely replaced in recent years, there is still a concrete demand for medical imaging films in China and Shandong Province;
- (ii) **Growing market size of the medical imaging cloud services industry in China and Shandong Province:** According to CIC, the market size of the medical imaging cloud services industry in China and Shandong Province grew from RMB0.7 billion and RMB0.06 billion in 2016 to RMB3.5 billion and RMB0.3 billion in 2021 and is expected to grow to RMB18.9 billion and RMB1.63 billion in 2030, respectively. Although the medical imaging cloud films cannot fully replace medical imaging films in the forecast period, the existence of favourable government policies and guidelines as detailed in “(v) Supportive government policies” below (which promote the use of medical imaging cloud services including but not limited to digital medical imaging cloud storage platform, digital medical image platform (patients can view their own cloud films by logging into the platform), regional imaging diagnosis platform and PACS system), and the market drivers of the medical imaging cloud services industry (including but not limited to the demand for automation, remote consultation and inter-hospital information sharing and communication, which requires the use of medical imaging cloud services) indicate the growing trend to use the medical imaging cloud services;
- (iii) **Potential market demand from East Shandong:** Given (a) the medical imaging scan volume in East Shandong is expected to grow from approximately 84.0 million in 2021 to approximately 105.0 million in 2025; (b) the medical imaging cloud services industry in East Shandong is expected to grow from approximately RMB0.09 billion in 2021 to approximately RMB0.48 billion in 2030; and (c) the number of hospitals in East Shandong is expected to increase from 1,064 hospitals in 2021 to approximately 1,174 in 2025; and (d) the termination of the cooperation with four hospitals from East Shandong during the Track Record Period due to long commuting time from West Shandong to East Shandong as confirmed by our Directors, our Directors expect that East Shandong will provide ready customers to our Group and hence provide sufficient demand for both our Group’s medical imaging film products and medical imaging cloud services. In addition, as our Group is an

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early mover to the medical imaging cloud services market, our Directors believe that we may be easily tap into the new market in East Shandong due to our Group's familiarity with the medical imaging cloud services market; and

- (iv) **Supportive government policies:** According to the Category and Classification List of Medical Devices (2017 Amendment) (《醫療器械分類目錄》(2017修訂)) issued by National Medical Products Administration (國家藥品監督管理局), First Batch Medical Devices Classification Results of Year 2020 (《2020年第一批醫療器械產品分類界定結果匯總》) issued by the Medical Device Research Institute (醫療器械標準研究所) from the National Institute for Food and Drug Control (中國食品藥品檢定研究院) and Class I Medical Devices Catalogue (《第一類醫療器械產品目錄》) issued by National Medical Products Administration, doctors should make a diagnosis based on the medical images printed on the medical laser film, medical dry laser film and thermal film without mentioning the medical images recorded in medical imaging cloud film. Further, National Medical Products Administration issued the Particular Specification for Medical Dry Imaging Films (《醫用乾式膠片專用技術條件》), which discusses the technical requirements of manufacturing of the medical dry imaging films in 2022, the issue of the article may suggest medical dry imaging films are still being widely used in the market and is not going to be completely replaced in recent years.

Notwithstanding the foregoing, according to the national government policies issued between 2015 till present, in particular, the Guiding Opinions on Further Standardising Medical Behaviours and Promoting Rational Medical Examinations (Guo Wei Yi Fa [2020] No.29) (《關於進一步規範醫療行為促進合理醫療檢查的指導意見》國衛醫發 [2020] 29號) and Notice of the General Office of the National Health and Health Commission on Accelerating the Mutual Recognition of Inspection Results (Guo Wei Ban Yi Han [2021] No.392) (《國家衛生健康委辦公廳關於加快推進檢查檢驗結果互認工作的通知》國衛辦醫函 [2021] 392號), the national government has been promoting the use of medical imaging cloud services. Further, some of the provinces including Liaoning, Zhejiang, Shanxi and Guizhou, have published an official pricing guideline for the use of the medical imaging cloud services. Coupled with the growth drivers of the medical imaging cloud services market as disclosed in the "Industry Overview" section of this document, our Directors believe that there is ample opportunity for our Group to capture the medical imaging cloud services market and the allocation of the [REDACTED] [REDACTED] to upgrade and enhance its medical imaging cloud services allows us to further penetrate into the market and enhance our Group's competitiveness.

Our Controlling Shareholder and executive Director, Mr. Meng, started the medical imaging film products and cloud services business in his family home and place of residence, Jinan, which is situated in West Shandong of Shandong Province. Mr. Meng then started to build its customers network in West Shandong first in order to lay a solid foundation and decided to expand its network in East Shandong by leveraging our competitive edge gained from our network in West Shandong to enhance the brand recognition of our Company and capture more business opportunities.

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According to CIC, the market of Tier-2 distributors medical imaging film products and the medical imaging cloud services market in East Shandong are fragmented. Our Directors believe that we can tap into the new market in East Shandong taking into consideration the following reasons:

- (i) Similar to West Shandong, the medical imaging film products market in East Shandong is dominated by a few international brands. Given our growing market share of our self-branded products in West Shandong, we likewise target to introduce our self-branded products in East Shandong with an aim to reduce our reliance on Honghe Group and the risks in our Group in the event of the full implementation of the “Two Invoice System” in Shandong Province and to expand our market share. Our Directors believe that our self-branded products can tap into the market in East Shandong taking into consideration the following factors:
 - (a) the unit selling price of our self-branded medical imaging film is generally lower than the unit selling price of international medical imaging films products. Proven by our track record, certain hospitals and healthcare institutions may change their preference to our self-branded products;
 - (b) our management team and sales and marketing team are familiar with the procurement process of the hospitals and healthcare institutions in Shandong Province;
 - (c) we are the only provider in Shandong Province which provides both medical imaging film products and medical imaging cloud services, which in turn may facilitate the hospitals and the medical practitioners to adapt to the shift from traditional medical imaging films to medical imaging cloud films; and
 - (d) our solid and established relationship with various deliverers would be beneficial to our Group in expanding our customer network in East Shandong as a result of their delivery channel.

Meanwhile, as at the Latest Practicable Date, our Group has already been engaged by an end customer located in East Shandong through Shandong AoXiang to provide medical imaging film products and cloud services. During the Track Record Period, our Group’s revenue attributable to Shandong AoXiang amounted to approximately RMB4.3 million, RMB5.6 million, RMB7.0 million and RMB2.8 million, respectively, representing approximately 3.1%, 3.1%, 3.3% and 2.8% of our total revenue for the respective year/period, respectively.

- (ii) according to CIC, for our distribution business, our Group was the biggest Tier-2 distributor of the Medical Imaging Products Manufacturer in Shandong Province in terms of sales volume in 2021. In respect of our medical imaging cloud services business, our Group was the third largest medical imaging cloud services supplier in Shandong Province with a market share of approximately 4.7%, in terms of sales revenue in 2021. Such established position enables us to easily overcome the entry barrier to tap into the market in East Shandong and have the competitive advantage over other medical imaging products or services providers who are not based in Shandong Province;
- (iii) according to CIC, we are the only provider in Shandong Province which provides medical imaging film products together with medical imaging cloud services. As a one-stop medical imaging solutions provider, if our customers procure medical imaging films from us and

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depending on our customers' needs, we will provide the medical imaging cloud services along with the medical imaging films so that the medical imaging printers can be connected to our digital medical imaging cloud storage platform to retrieve medical data. Our Directors consider that we can differentiate ourselves from other medical imaging film products providers and medical imaging cloud services providers in East Shandong by specialising in the integration of both hardware and software for offering a one-stop medical imaging products and services to the potential customers in East Shandong; and

- (iv) we have been deeply rooted in Shandong Province since our establishment in 2015 and are familiar with the medical imaging market and the business operating environment in Shandong Province (including East Shandong). Our close proximity to East Shandong is beneficial to the establishment and maintenance of our relationship with our target customers in East Shandong. We can therefore leverage on our market knowledge and geographical advantage to expand into and capture business opportunities from East Shandong.

REASONS FOR [REDACTED]

Our principal business objective is to maintain and/or enhance our growth potential and expand our market share. Our Directors believe the estimated net proceed from the [REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the indicative range of the [REDACTED] after deduction of [REDACTED] fees and estimated expenses in connection with the [REDACTED] and assuming that the [REDACTED] is not exercised) of approximately HK\$[REDACTED] million will help us to pursue our business objectives and implement our business strategies.

Based on our consolidated unaudited management accounts as at 31 October 2022, we had approximately RMB36.4 million in cash and bank balances, which was insufficient for the implementation of our future plans. Furthermore, referring to our major costs of operations, including cost of sales, selling and distribution expenses and administrative expenses (excluding [REDACTED]) for the six months ended 30 June 2022, our average monthly costs are approximately RMB[REDACTED] million. As such, our Directors consider that the current cash and bank balances of RMB16.3 million as at 31 October 2022, is only sufficient for the present scale of the business turnover and our Group may not have sufficient internal generated funds to finance our expansion plan while at the same time maintaining sufficient working capital for our Group's operation.

Our Directors decided to proceed with the [REDACTED] for the purpose of our business expansion instead of debt financing based on the following factors:

- financial institutions generally require owners to provide assets as securities for long-term loans;
- if we raise additional funds by debt financing, we may be subject to various covenants under the relevant debt instruments which may restrict our ability to pay dividends or obtain additional financing. Further, the repayment terms of such loans, including but not limited to the covenants and interest rates, may not be commercially acceptable to us. Uncertain interest rate movement in the future may also expose our Group to increasing borrowing costs which may adversely affect our financial performance and liquidity; and

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- servicing debt obligations could be burdensome to our operations. If we fail to service such debt obligations on time or we are unable to comply with any of the covenants, we could be in default of such debt obligations and our liquidity, financial credibility and financial condition could be materially and adversely affected. In contrast, by proceeding with equity financing, our Group could enhance our Shareholders' base and no additional financial liability will be incurred.

Finally, it should be noted that in principle, our Directors remain open to the idea of debt financing; and it does not consider debt financing and equity financing to be mutually exclusive. However, our current objective is to obtain a form of financing that is flexible, able to offer favourable terms, and will enable our Group to achieve our expansion plans without being exposed to unproportional financial risks. Our Directors believe that the [REDACTED] will not only provide the Group with funding for the expansion plan, but will also enhance our Group's corporate profile as we become more transparent and become subject to the relevant regulatory supervision of a [REDACTED] company when we become a [REDACTED] company. Our Directors consider that we will also benefit from the [REDACTED] by (i) the enhanced internal control and corporate governance practises which fosters customers' and suppliers' confidence in our Group; and (ii) the ability to retain and hire suitable talents. Furthermore, in the case of future business expansion and long-term development needs and goals, the [REDACTED] will provide us with additional channels to raise funds in the form of equity and/or debt in the capital markets.

Accordingly, our Directors are of the view that it is in the interests of the Company and its Shareholders to finance our future plans by way of the [REDACTED] and [REDACTED].