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## Mega Genomics Limited

美因基因有限公司\*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6667)

### ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

The board (the “**Board**”) of directors (the “**Directors**”) of Mega Genomics Limited (the “**Company**”) is pleased to announce the consolidated results for the year ended 31 December 2022 and the comparative figures for the year ended 31 December 2021 of the Company and its subsidiaries (collectively, the “**Group**”).

The consolidated financial statements of the Group have been reviewed and agreed by the audit committee of the Company (the “**Audit Committee**”).

In this announcement, “we,” “us,” and “our” refer to the Company and where the context otherwise requires, the Group. Certain amounts and percentage figures included in this announcement have been subject to rounding adjustments. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

#### HIGHLIGHTS

##### Key Financial Data

The table below sets forth our key financial data for the year ended 31 December 2022, together with the comparative figures for the corresponding period in 2021 and the change (expressed in percentages or percentage points).

	For the year ended 31 December		
	2022 RMB'000	2021 RMB'000	Year-on-year change
Revenue	145,727	237,185	(38.6%)
Consumer genetic testing services	80,557	135,469	(40.5%)
Cancer screening services	65,170	100,585	(35.2%)
Other services	–	1,131	(100.0%)
Gross profit	81,723	166,676	(51.0%)
Gross profit margin	56.1%	70.3%	(14.2 percentage points)
Adjusted net profit <sup>(1)</sup>	2,844	105,307	(97.3%)
Adjusted net profit margin <sup>(2)</sup>	2.0%	44.4%	(42.4 percentage points)

(1) The adjusted net profit is exclusive of listing expenses, share-based payment expense related to restricted share units (“RSU”) and interest on redemption liabilities on ordinary shares.

(2) The adjusted net profit margin equals the adjusted net profit divided by revenue for the year and multiplied by 100%.

\* For identification purpose only

## Key Operating Data

The table below sets forth the number of tests we performed by type of testing services and the average price of the type of testing services for the periods presented.

	For the year ended 31 December			
	2022		2021	
	Average price (RMB)	Testing volume (in thousand)	Average price (RMB)	Testing volume (in thousand)
Consumer genetic testing services				
General consumer genetic testing services	48.0	1,340	55.4	1,697
COVID-19 testing services	5.6	2,896	43.5	952
Cancer screening services	274.0	238	322.4	312
Total	<u>32.6</u>	<u>4,474</u>	<u>79.7</u>	<u>2,961</u>

## BUSINESS REVIEW AND OUTLOOK

### Business Review

#### Overview

As a leading genetic testing platform company in China, we focus on consumer genetic testing and cancer screening services. As of 31 December 2022, we accumulatively performed over 16 million genetic tests since our establishment in 2016, with an average of over 373,000 tests performed per month in 2022.

According to Frost & Sullivan, we are the largest consumer genetic testing platform in China in terms of the cumulative number of tests administered as of 31 December 2021, and we were the largest genetic testing platform for cancer screening in China as measured by the number of tests administered in 2020. Unless the context otherwise requires, capitalized terms used herein shall have the same meanings as those defined in the Prospectus dated 10 June 2022.

#### Our Products

Our products are either independently developed by our in-house research and development team or jointly developed via cooperation with our third-party partners.

As of 31 December 2022, we had 91 multi-dimensional commercialized testing solutions for consumer genetic testing and cancer screening that cover a wide range of prices, and 80 of them were comprised of our self-developed services. Our current selective testing services that are more well-received by the market include:

### *GENERAL testing services*

- Brain Health Assessment Package – a service that assesses the risk of various related diseases, including Alzheimer’s disease.
- Alimentation Capability Assessment Package – a service that assesses the risk of developing hyperhomocysteinemia.
- Parkinson’s Disease Risk Assessment – a service that assesses the risk of developing Parkinson’s disease.
- Full-scale Cancer Risk Assessment Package – a service that assesses the risk of developing cancer of various types.
- Cardiovascular and Cerebrovascular Disease Risk Assessment Package – a service that assesses the risk of developing seven common cardiovascular and cerebrovascular diseases.

### *ADVANCED testing services*

- Hereditary Breast Cancer/Ovarian Cancer Genetic Testing – a service that assesses the risk of developing breast cancer and ovarian cancer.
- Septin9 Colorectal Cancer Screening Test – a service that provides preliminary assessment of whether a person has potentially developed colorectal cancer.
- RNF180/Septin9 Gastric Cancer Screening Test – a service that provides preliminary assessment of whether a person has potentially developed gastric cancer.

### *EXECUTIVE testing services*

- Personal Whole Genome Test Plus – a service that assesses the risk of developing multiple types of diseases and provides interpretation for various individual traits and medication advice for certain common diseases.
- Whole Exome Sequencing Package for Adult – a service that assesses (i) the risk of developing multiple high-risk diseases, hereditary cancers, recessive genetic diseases and types of complex diseases; and (ii) multiple drugs, dietary nutrition items, and exercise and fitness items.

In addition to our existing service portfolio, we have been developing eight in vitro diagnostics (“**IVD**”) pipeline products.

Among them, three kits are consumer genetic testing products in our pipeline, including (i) folate metabolic capacity assessment testing kits, which can be used to assess the risk of developing multiple cardiovascular and cerebrovascular diseases; (ii) ApoE gene testing kits, which can be used to assess the risk of developing Alzheimer’s disease; and (iii) BRCA1/BRCA2 gene mutation testing kits, which can be used to assess the risk of developing hereditary breast cancer.

The other five kits are disease screening products in our pipeline, including (i) Alzheimer’s disease screening kits; (ii) colorectal cancer screening kits; (iii) gastric cancer screening kits; (iv) lung nodule auxiliary diagnostic kits; and (v) cervical cancer screening kits. Our disease screening pipeline covers major diseases with high prevalence that currently lack effective screening methods.

#### *ApoE gene testing kits*

Our self-developed ApoE testing kits use extraction-free blood nucleic acid technology and quantitative polymerase chain reaction (“**qPCR**”) platform to detect ApoE gene mutations and assess the risk of Alzheimer’s disease. We expect this product to generate synergistic effects with our Alzheimer’s disease screening products. The ApoE gene testing kits screen ApoE  $\epsilon$ 4 carriers, which is the target population that we recommend for periodic testing for Alzheimer’s disease.

Our self-developed extraction-free blood nucleic acid technology can effectively save testing costs (eliminating nucleic acid extraction reagents and equipment) and time costs (eliminating the one-hour nucleic acid extraction process). The product has obtained the registration inspection report in May 2022 and is currently in a multi-center clinical trial of approximately 1,200 cases with three hospitals in different regions of China (Tiantan Hospital, etc.) and is expected to obtain the registration certificate in the second half of 2023.

#### *Folate metabolic capacity assessment testing kits*

Our self-developed folate metabolic capacity assessment testing kits use extraction-free blood nucleic acid technology and qPCR platform to detect the MTHFR gene and assess the metabolic capacity of folate in order to guide pregnant women to supplement folate and prevent neonatal defects, including neural tube defects. It can also assess the risk of hyperhomocysteinemia, stroke and other cardiovascular and cerebrovascular diseases.

Our self-developed extraction-free blood nucleic acid technology can effectively save testing costs (eliminating nucleic acid extraction reagents and equipment) and time costs (eliminating the one-hour nucleic acid extraction process). The product has obtained the registration inspection report in May 2022 and is currently in a multi-center clinical trial of approximately 1,200 cases with three hospitals in different regions of China (Zhejiang Provincial People’s Hospital, etc.) and is expected to obtain the registration certificate in the second half of 2023.

#### *Alzheimer’s disease screening kits*

Our Alzheimer’s disease screening kits are plasma-based miRNA markers testing. The global genetic testing market does not have any commercialized genetic testing kit registered for screening Alzheimer’s disease, according to Frost & Sullivan. We are developing this product in collaboration with Tiantan Hospital and conducting multi-center clinical validation with multiple hospitals in different regions of China. We are using no less than 1,500 samples and machine learning algorithms to determine the suitability of the selected biomarkers.

We expect to develop two types of testing kits using each of multiplex RT-qPCR and NGS technologies. The NGS kits are expected to include dozens to hundreds of biomarkers and provided as Laboratory Developed Tests (“LDTs”).

The RT-qPCR kits are expected to include two to three biomarkers, and we expect to obtain the registration certificate by the second half of 2024.

#### *Colorectal cancer screening kits*

Our product candidates for colorectal cancer screening are plasma-based DNA methylation markers testing.

We are developing this product in collaboration with the 7th Medical Center of Chinese PLA General Hospital. As of 31 December 2022, we have preliminarily finished biomarker candidate selection, and we are conducting multi-center clinical validation with three hospitals in different regions of China and using no less than 1,500 samples to determine the suitability of the selected biomarkers. We have tested hundreds of samples, and with the biometric analysis and machine learning algorithm, we have screened tens of thousands of marker candidates. Currently, we are further narrowing the range of markers by increasing the sample size.

We expect to develop two types of testing kits using each of qPCR and NGS technologies.

The NGS kits are expected to include dozens to hundreds of biomarkers and provided as LDT.

The qPCR kits are expected to include two to three biomarkers, and we expect to obtain the registration certificate by the first half of 2024.

#### *Gastric cancer screening kits*

Our product candidates for gastric cancer screening are plasma-based DNA methylation markers testing.

We are developing this product in collaboration with the 7th Medical Center of Chinese PLA General Hospital. As of 31 December 2022, we have preliminarily finished biomarker candidate selection, and we are conducting multi-center clinical validation with three hospitals in different regions of China and using no less than 1,500 samples to determine the suitability of the selected biomarkers. We have tested hundreds of samples, and with the biometric analysis and machine learning algorithm, we have screened tens of thousands of marker candidates. Currently, we are further narrowing the range of markers by increasing the sample size.

We expect to develop two types of testing kits using each of qPCR and NGS technologies.

The NGS kits are expected to include dozens to hundreds of biomarkers and provided as LDT.

The qPCR kits are expected to include two to three biomarkers, and we expect to obtain the registration certificate by the first half of 2024.

#### *BRCA1/BRCA2 gene mutation testing kits*

We have completed the reagent formulation for our self-developed BRCA1/BRCA2 gene mutation testing kits. With the multiplex PCR library preparation sequencing technology, we have achieved a lower cost and initially established a database containing tens of thousands of mutation loci.

Lung nodule (benign or malignant) auxiliary diagnostic kits and cervical cancer screening kits are at the early development stage.

In addition, we developed colloidal gold-based fecal occult blood testing kits and transferrin testing kits to detect gastrointestinal bleeding for the auxiliary diagnosis of colorectal and gastric cancers. As of 31 December 2022, the two IVD kits have obtained registration test reports and completed clinical evaluations. Also, they are currently in the process of registration acceptance and are tested by the Shanghai Medical Products Administration in respect of the the system assessment. We expected to receive product registration certificates in 2023.

#### ***Research and Development (“R&D”)***

Strong research and development capabilities is vital to our business.

Since our founding in 2016, our research and development has been a major force in the expansion of our testing technology platforms and testing services offerings. We use a market-oriented research and development strategy. Our research and development team contributes to the development of our company’s growth strategy by tracking industry developments, market demand and competition, and by identifying services and products with significant market potential for commercialization. For the year ended 31 December 2022, our research and development expenses increased by 70% compared with the same period of 2021.

#### *Intellectual property and qualification*

As of 31 December 2022, three invention patents and two design patents had been granted to us. In addition, we registered 38 software copyrights and 58 trademarks. We have also been recognised for our innovation, including recognition as a National High-tech Enterprise, Zhongguancun High-tech Enterprise, and Beijing “Specialization, Expertise, Distinction, Innovation” small and mid-size enterprise.

#### *In-House research and development team*

We have a strong in-house R&D team, and the team has extensive experience in the genetic testing industry. Approximately 65% of our research and development team members possess a master degree or above in relevant fields from institutions such as the Chinese Academy of Sciences, China Agricultural University and New York University.

### *Collaboration with third parties*

In addition to our in-house R&D team, we also conduct our research and development efforts through collaboration with top physicians and medical experts in China.

Under our collaboration agreements, medical experts work with us during the research and development stage and help with the implementation of clinical trials through recruitment of participating hospitals and trial sample collection. Such collaboration is expected to expedite the process of multi-center clinical trials with large samples and increase the reliability of our products.

Such medical experts would also provide necessary expert opinions during the registration process.

In addition, we expect the authority and reputation of these experts to help with the registration and promotion of our products. We have the technical know-how for the co-developed products and have joint ownership over relevant intellectual property rights.

We are entitled to submit IVD registration applications for these products and we will be the sole registrant of the IVD registration certificates once approved.

We also established R&D collaborations with industry-leading service providers, mainly CROs, at different phases of our IVD product registration to ensure our quality management system, manufacturing and clinical trials of IVD product candidates are in line with the National Medical Products Administration of China's regulatory requirements for product registration. Our collaboration with these companies does not grant them any interest in our intellectual property rights. We do not rely on any particular service provider.

As of 31 December 2022, we have established cooperative relationships with the following companies:

Huaguang Innovation (Beijing) Technology Service Co., Ltd. ("**Huaguang**")

It is a top-level third-party certification company for the medical device quality management system with experience in product certification and quality management system certification.

Through collaboration with Huaguang, we established a quality management system that satisfies IVD registration standards and receives guidance in the product registration process to ensure full compliance with applicable regulations and quality management system assessment.

Guangzhou Osmunda Medical Device Technology, Inc. ("**Osmunda**")

It is the leading CDMO service provider in China with four domestic CDMO bases, and has production lines for active devices, passive devices, and IVD reagents. It also has independent inspection and testing centers, physics laboratories, chemical laboratories, PCR laboratories, microbiological inspection clean areas and preparation rooms. We collaborate with Osmunda for contract-commissioned production that complies with relevant regulations.

Jyton-Kannel Medical Technology Co., Ltd. (“**Jyton-Kannel**”)

It is a top clinical trial CRO company in China. Our collaboration with Jyton-Kannel is designed to ensure clinical trial compliance.

### ***Testing Technology Platforms***

Our testing platforms and technologies include endpoint fluorescent PCR platform, qPCR platform, NGS platform (multiplex PCR library preparation sequencing, whole exome sequencing and whole genome sequencing technologies), whole-genome microarray platform and blood nucleic acid extraction-free technology. We possess the full range of genetic and molecular diagnostics technologies that support our commercialized testing and R&D applications.

Our R&D team has innovated constantly and developed a number of new risk assessment genetic tests covering various specialty areas, including alimentation, brain health, Parkinson’s disease, ankylosing spondylitis, comprehensive assessment of immunity, cancer risk assessment, cardiovascular and cerebrovascular diseases, digestive system diseases, telomere and pharmacogenetic testing.

Our research and development efforts also focus on the registration of IVD test kits. At present, the following products are under IVD registration filing, including ApoE gene testing kits, folate metabolic capacity assessment testing kits, fecal occult blood testing kits and transferrin testing kits. The following products are under development, including Alzheimer’s screening kits, colorectal cancer screening kits, and gastric cancer screening kits. Three other products are at the early development stage, including lung nodule (benign and malignant) auxiliary diagnosis kits, cervical cancer screening kits, and BRCA1/BRCA2 gene mutation testing kits.

### ***Production Capacity***

In order to carry out our broad-spectrum testing process and to satisfy our consumers’ needs, we have developed an advanced and integrated system of technology platforms, including endpoint fluorescent PCR platform, qPCR platform, NGS platform (multiplex PCR library preparation sequencing and exon/whole genome sequencing technologies) and whole-genome microarray platform. Our tests are conducted in our independent testing laboratory. Our high-throughput testing platform, with an average daily throughput of 50,000 samples, offers the advantages of high throughput and automation, and the ability to deliver multi-scenario genetic testing solutions with cost efficiencies.

### ***Production Facility***

We have one laboratory located in Beijing, China, with a gross floor area of approximately 880 sq.m. Our laboratory has obtained External Quality Assessment Certificate for various testing services as well as the PRC Practice License of Medical Institution. Our laboratory has the required registrations and licenses to perform PCR amplification for clinical use and obtained the laboratory accreditation certificate from the China National Accreditation Service for Conformity Assessment in 2022.



## **Business**

In 2022, real economy was significantly affected by the rapid spread of the Omicron variant of COVID-19 in many cities across the country. However, in consideration of future development needs and thanks to the Company's ample cash reserves, we further expanded our sales force and expanded our sales network. Despite the adjustment of our operating strategy to increase promotion expenses and optimise the structure of sales personnel in response to the surge of COVID-19 in the second half of 2022, we effectively controlled labour costs and other corresponding expenses, our sales team still grew for the year ended 31 December 2022 compared to 2021. As of 31 December 2022, we covered nearly 1,700 healthcare institutions in more than 340 cities in China, and health checkup centers accounted for approximately 54% of our institutional customers in terms of total number. Our sales and marketing network allows us to deliver genetic testing services to a large portion of the Chinese population. In addition, we cooperate with various e-commerce and online healthcare platforms to expand and enhance our sales and marketing network.

## **Financial Highlights**

### **For the year ended 31 December**

	<b>2022</b>	2021	Year-on-year change
	<b>RMB'000</b>	RMB'000	
Revenue	<b>145,727</b>	237,185	(38.6%)
Consumer genetic testing services	<b>80,557</b>	135,469	(40.5%)
Cancer screening services	<b>65,170</b>	100,585	(35.2%)
Other services	–	1,131	(100.0%)
Gross profit	<b>81,723</b>	166,676	(51.0%)
Gross profit margin	<b>56.1%</b>	70.3%	(14.2 percentage points)
Adjusted net profit <sup>(1)</sup>	<b>2,844</b>	105,307	(97.3%)
Adjusted net profit margin <sup>(2)</sup>	<b>2.0%</b>	44.4%	(42.4 percentage points)

### *Notes:*

- (1) The adjusted net profit is exclusive of listing expenses, share-based payment expense related to RSU and interest on redemption liabilities on ordinary shares.
- (2) The adjusted net profit margin equals the adjusted net profit divided by revenue for the year and multiplied by 100%.

## **Revenue**

For the year ended 31 December 2022, we achieved total revenue of RMB145.7 million, representing a decrease of RMB91.5 million, or 38.6%, compared to RMB237.2 million for the same period in 2021. The revenue generated from consumer genetic testing services and cancer screening services for the year ended 31 December 2022 was RMB80.5 million and RMB65.2 million, respectively. The year-on-year decrease in revenue from consumer genetic testing services and cancer screening services was due to limited customer access to testing resulting from enforced traffic restrictions in many large and medium-sized cities following the multi-regional, continuous and prolonged outbreak of COVID-19 in China in 2022.

## **Gross Profit and Gross Profit Margin**

For the year ended 31 December 2022, our gross profit from consumer genetic testing services and cancer screening services was RMB34.9 million and RMB46.8 million, respectively. The consolidated gross profit was RMB81.7 million, representing a decrease of 51.0% year on year, due to a significant decrease in revenue and the relatively fixed expenses such as labor and rent, resulting in decreased gross profit.

For the year ended 31 December 2022, our consolidated gross profit margin was 56.1%. For the year ended 31 December 2021, the gross profit margin for our cancer screening services was 71.9%, with a year-on-year decrease of 3.8 percentage points, mainly due to the adjustment of pricing strategy by the Company to promote and popularize cancer screening services in 2022. The gross profit margin for consumer genetic testing services was 43.3%, with a year-on-year decrease of 22.9 percentage points, due to a significant decrease in revenue and the relatively fixed expenses such as labor and rent, resulting in decreased gross profit and gross profit margin.

## **Non-HKFRS Measures: Adjusted Net Profit and Adjusted Net Profit Margin**

For the year ended 31 December 2022, our adjusted net profit was RMB2.8 million, representing a year-on-year decrease of RMB102.5 million or 97.3% compared to RMB105.3 million for the same period in 2021. Our adjusted net profit margin decreased from 44.4% for the year ended 31 December 2021 to 2.0% for the year ended 31 December 2022, mainly due to the significant decrease in gross profit resulting from the lower revenue of the Company as well as the increase in staff costs as the Company increased marketing efforts and enriched marketing talent pool. At the same time, as our research and development progressed, some projects entered the clinical trial stage, the R&D personnel increased and various expenses such as labor, reagents and sequencing also increased. In addition, due to the impact of the COVID-19 pandemic, many large and medium-sized cities enforced traffic restrictions, and the stores of health checkup centers were closed, which greatly affected the Company's receivable collection and increased the amount of provision for credit impairment loss.

## **Prospects and Outlook**

### ***Further exploiting the consumer genetic testing market in China***

According to Frost & Sullivan, the penetration of the consumer genetic testing market in China is expected to grow from 0.8% to 11.6% from 2020 to 2030. During this process, more standards regarding the consumer genetic testing industry will be established and the prevention and treatment guidelines or expert consensus for common diseases will be formed gradually. We believe it is critical to drive industry standards more rapidly.

We will strengthen our partnerships with industry leaders to establish industry standards through key opinion leaders. We are discussing with experts to hold academic conferences, cooperate with experts in scientific research and conduct data retrospective analysis, etc. We will also strengthen our efforts to accelerate the education of medical institutions and increase market penetration more quickly by popularizing industry standards.

### ***Further exploiting the cancer screening test market in China***

We plan to further increase the penetration of cancer screening. The current market is basically aware of cancer screening, especially in the field of digestive tract tumors, blood methylation screening for intestinal cancer has gradually and widely reached consumers and has achieved good response. We will further strengthen the automation level of production to reduce the production cost and accelerate the research and development and application of blood methylation products for digestive tract tumors to improve the sensitivity and specificity of screening. This is to make the blood methylation screening for intestinal cancer have better socio-economic value.

We will continue diversifying our cancer screening product lines, and market our screening products of fecal occult blood soon. Lower-cost screening will expand the recipient base and increase awareness of intestinal cancer screening among our customers.

### ***Expanding our research and development strength and enriching our product matrix***

We will vigorously expand our research and development strength. In line with our research and development efforts, we plan to recruit more professionals to strengthen our internal research and development team and supplement our internal research and development strength by collaborating with renowned domestic and international academic and medical institutions.

In addition to our product pipeline, we plan to develop a wider range of screening products that are low-cost and suitable for in-home testing. We believe that diversifying our product portfolio will help us strengthen our industry leadership position, significantly enhance operational efficiency and improve profitability. In addition, our fecal occult blood intestinal cancer screening and transferrin screening products will soon be granted with the Registration Certificate for Medical Device and be marketed in 2023.

### ***Making selective geographic expansion and acquisition opportunities***

We plan to build a manufacturing laboratory to enhance geographic coverage, improve reporting cycles and reduce operating costs. We will optimize the production process, adopt a new production system for the new laboratory, and substantially shorten the product reporting time, to further improve customer experience.

We also plan to make prudent investments to complement our internal growth. We plan to acquire product candidates with significant market potential or technological frontiers when appropriate to complement our existing product portfolio and create synergies with our research and development, manufacturing, and channel systems.

## MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth our condensed consolidated statements of profit or loss for the periods indicated, together with the changes from the year ended 31 December 2021 to the same period in 2022, presented as a percentage:

	<b>For the year ended 31 December</b>		
	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>	Year-on- year change %
Revenue	<b>145,727</b>	237,185	(38.6%)
Cost of sales	<b>(64,004)</b>	(70,509)	(9.2%)
Gross profit	<b>81,723</b>	166,676	(51.0%)
Other income and gains	<b>19,221</b>	14,265	34.7%
Selling and distribution expenses	<b>(34,863)</b>	(22,977)	51.7%
Administrative expenses	<b>(42,929)</b>	(22,968)	86.9%
Impairment losses on trade receivables, net	<b>(25,852)</b>	(6,165)	319.3%
Other expenses	<b>(2,483)</b>	(5,872)	(57.7%)
Listing expenses	<b>(15,516)</b>	(20,167)	(23.1%)
Finance costs	<b>(719)</b>	(785)	(8.4%)
Interest on redemption liabilities on ordinary shares	–	(6,125)	(100.0%)
(Loss)/profit before tax	<b>(21,418)</b>	95,882	N/A
Income tax credit/(expense)	<b>3,800</b>	(16,867)	N/A
<b>(Loss)/profit for the year</b>	<b>(17,618)</b>	79,015	N/A
<b>Non-HKFRS Measures:</b>			
Adjusted net profit	<b>2,844</b>	105,307	(97.3%)

## Revenue

We organize our main business into three segments: consumer genetic testing services, cancer screening services and other services. Other services mainly include genetic research and analysis services that we offer to third-party research institutions.

The table below sets forth our revenue by operating segment for the periods presented (presented in figures and as a percentage of total revenue).

	For the year ended 31 December			
	2022		2021	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Consumer genetic testing services	<b>80,557</b>	<b>55.3%</b>	135,469	57.1%
Cancer screening services	<b>65,170</b>	<b>44.7%</b>	100,585	42.4%
Other services	<b>–</b>	<b>–</b>	1,131	0.5%
Total	<b><u>145,727</u></b>	<b><u>100.0%</u></b>	<b><u>237,185</u></b>	<b><u>100.0%</u></b>

The following table shows the average price and number of tests we performed during the periods indicated, broken down by type of testing services.

	For the year ended 31 December			
	2022		2021	
	Average price <i>(RMB)</i>	Testing volume <i>(in thousand)</i>	Average price <i>(RMB)</i>	Testing volume <i>(in thousand)</i>
Consumer genetic testing services				
General consumer genetic testing services	<b>48.0</b>	<b>1,340</b>	55.4	1,697
COVID-19 testing services	<b>5.6</b>	<b>2,896</b>	43.5	952
Cancer screening services	<b>274.0</b>	<b>238</b>	322.4	312
Total	<b><u>32.6</u></b>	<b><u>4,474</u></b>	<b><u>79.7</u></b>	<b><u>2,961</u></b>

- Consumer genetic testing services. For the year ended 31 December 2022, our revenue from consumer genetic testing services was RMB80.5 million, with a year-on-year decrease of 40.5%. The decrease was mainly due to the limited customer access to testing resulting from enforced traffic restrictions in many large and medium-sized cities following the multi-regional, continuous and prolonged outbreak of COVID-19 in China in 2022. The decrease was also due to the significant decrease in revenue from COVID-19-related testing services as a result of the government's request to reduce the price of COVID-19 diagnostic tests.

- Cancer screening services. For the year ended 31 December 2022, our revenue from cancer screening services was RMB65.2 million, representing a decrease of 35.2% year on year. The decrease was due to the adjustment of pricing strategy by the Company to promote and popularize cancer screening services in 2022. The decrease was also due to reduced sample volume resulting from the limited customer access to testing affected by the COVID-19 pandemic.
- Other services. Our contract on the provision of genetic research and analysis services to third-party research institutions expired and there are no new commitments for related projects. For the year ended 31 December 2022, we generated no revenue from other services.

## Cost of Sales

Our cost of sales consists primarily of raw material costs, testing service costs, staff costs, and the cost of printing and delivering test reports. Others consist primarily of rent, clusters, property utilities, etc. The following table sets forth a breakdown of cost of sales by nature for the periods indicated (presented in figures and as a percentage of cost of sales).

	For the year ended 31 December			
	2022		2021	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Raw materials	<b>32,616</b>	<b>51.0%</b>	36,697	52.0%
Testing services	<b>7,644</b>	<b>11.9%</b>	11,567	16.4%
Staff costs	<b>11,937</b>	<b>18.7%</b>	10,384	14.7%
Depreciation and amortization	<b>5,986</b>	<b>9.4%</b>	5,499	7.8%
Printing and delivery costs	<b>2,137</b>	<b>3.3%</b>	2,663	3.8%
Others	<b>3,684</b>	<b>5.7%</b>	3,699	5.3%
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Total	<b>64,004</b>	<b>100.0%</b>	70,509	100.0%
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Our cost of sales decreased by 9.2% from RMB70.5 million for the year ended 31 December 2021 to RMB64.0 million for the same period in 2022. The decrease was mainly due to a decrease in the testing volume and corresponding revenue of consumer genetic testing services and cancer screening services. While labor, rent, depreciation and amortization costs are relatively stable, the decrease in cost of sales is less than the decrease in revenue.

## Gross Profit and Gross Profit Margin

For the years ended 31 December 2021 and 2022, our gross profit was RMB166.7 million and RMB81.7 million, respectively. For the same periods, our gross profit margin was 70.3% and 56.1%, respectively. The following table sets forth a breakdown of gross profit and gross profit margin by operating segment for the periods indicated (presented in figures and as a percentage of total gross profit).

	For the year ended 31 December			
	2022		2021	
	Segmental gross profit RMB'000	%	Segmental gross profit RMB'000	%
Consumer genetic testing services	34,875	42.7%	89,648	53.8%
Cancer screening services	46,848	57.3%	76,095	45.7%
Other services	—	—	933	0.5%
<b>Total</b>	<b>81,723</b>	<b>100.0%</b>	<b>166,676</b>	<b>100.0%</b>

	For the year ended 31 December	
	2022	2021
	Segmental gross profit margin	Segmental gross profit margin
Consumer genetic testing services	43.3%	66.2%
Cancer screening services	71.9%	75.7%
Other services	—	82.5%
<b>Total</b>	<b>56.1%</b>	<b>70.3%</b>

- Our gross profit from consumer genetic testing services decreased from RMB89.6 million for the year ended 31 December 2021 to RMB34.9 million for the same period in 2022. The gross profit margin for consumer genetic testing services decreased from 66.2% for the year ended 31 December 2021 to 43.3% for the same period in 2022. The gross profit and the gross profit margin decreased due to a significant decrease in revenue from consumer genetic testing services and relatively fixed costs such as labor and rent. Meanwhile, the gross profit from COVID-19 testing services decreased due to the the significant decrease in unit price as government requested to reduce the price of COVID-19 testing services for several rounds in 2022.
- Our gross profit from cancer screening services decreased from RMB76.1 million for the year ended 31 December 2021 to RMB46.8 million for the same period in 2022. The decrease in gross profit was due to lower revenue from cancer screening services in 2022 and relatively stable fixed costs such as labor and rent. In particular, due to the impact of COVID-19 pandemic in the second half of 2022, the number of customers accessible to testing decreased. In order to promote customer access to testing, the Company vigorously promoted its cancer screening services and offered customers more favorable testing prices, resulting in further decrease in the gross profit from cancer screening services.

- Our gross profit from other services decreased from RMB0.9 million for the year ended 31 December 2021 to nil for the same period in 2022, mainly due to the completion of the Company's consulting service contracts and no new consulting service revenue for the time being.

### **Other Income and Gains**

Our other income and gains increased by 34.7% from RMB14.3 million for the year ended 31 December 2021 to RMB19.2 million for the same period in 2022. The increase was mainly due to the more exchange gains resulting from the change in the exchange rate of USD against RMB in the international market.

### **Selling and Distribution Expenses**

Our selling and distribution expenses increased by 51.7% from RMB23.0 million for the year ended 31 December 2021 to RMB34.9 million for the same period in 2022. The increase was mainly due to higher personnel costs as the Company increased marketing efforts, with the number of marketing personnel increasing by 111% as of 31 December 2022 compared with that as of 31 December 2021.

### **Administrative Expenses**

Our administrative expenses increased by 86.9% from RMB23.0 million for the year ended 31 December 2021 to RMB42.9 million for the same period in 2022, mainly due to the increase in the number of R&D personnel and the corresponding increase in R&D investment depending on our R&D process, resulting in increasing R&D expenses, as well as the decrease in equipment leasing business and its corresponding depreciation charged to administrative expenses. In addition, we also recognised the share-based payment expense related to RSU.

### **Other Expenses**

Our other expenses decreased by 57.7% from RMB5.9 million for the year ended 31 December 2021 to RMB2.5 million for the same period in 2022. The decrease in other expenses was mainly due to the decrease in equipment leasing business.

### **Listing Expenses**

For the year ended 31 December 2022, we incurred listing expenses of RMB15.5 million in connection with the global offering and the listing of our ordinary shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), accounting for 10.6% of our revenue for the same period.



## **Finance Costs**

Our finance costs decreased by 8.4% from RMB0.8 million for the year ended 31 December 2021 to RMB0.7 million for the same period in 2022. The decrease was mainly due to the decreased interest expenses on lease liabilities under the new lease standards.

## **Interest on Redemption Liabilities on Ordinary Shares**

Our Series A Investors were entitled to a redemption right under the 2016 Series A Financing Agreement, which under certain conditions would entitle holders of these shares to a 10% return on their Series A investment. In June 2021, the redemption right of the remaining Series A Investors was terminated and the remaining amount of the redemption obligation was recognised.

Our interest on redemption liabilities on ordinary shares decreased from RMB6.1 million for the year ended 31 December 2021 to nil for the same period in 2022.

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

For the year ended 31 December 2022, we recorded an income tax credit of RMB3.8 million as our operating results were loss-making. We recorded an income tax expense of RMB16.9 million for the same period in 2021.

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

For the reasons given above, we recorded a loss for the year of RMB17.6 million for the year ended 31 December 2022, and we recorded a profit for the year of RMB79.0 million for the same period in 2021.

## **Adjusted Net Profit (Non-HKFRS Measures)**

To supplement our consolidated statements of profit or loss, which are presented in accordance with HKFRS, we also use adjusted net profit as a non-HKFRS measure, which is not required by, or presented in accordance with HKFRS. We believe the presentation of this non-HKFRS measure when shown in conjunction with the corresponding HKFRS measures provides useful information to investors and management in facilitating a comparison of our operating performance from period to period by eliminating the impact of non-recurring and non-cash items.

Interest on redemption liabilities on ordinary shares was a non-cash item, and the interest expense was recorded to reflect interest incurred on our conditional obligation to redeem equity securities issued in our Series A financing in 2016. This redemption obligation was measured at net present value of the redemption obligation amount and recorded as a financial liability and incurred interest. We also added back listing expenses and share-based payment expense related to RSU as they were also non-recurring and not directly related to our operating activities.

The following table reconciles our calculations of adjusted net profit with the net (loss)/profit for the year, which is presented in accordance with HKFRS.

	<b>For the year ended 31 December</b>	
	<b>2022</b>	2021
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
(Loss)/profit for the year	<b>(17,618)</b>	79,015
Interest on redemption liabilities on ordinary shares	–	6,125
Listing expenses	<b>15,516</b>	20,167
Share-based payment expense related to RSU	<b>4,946</b>	–
Adjusted net profit	<b>2,844</b>	105,307

### **Cash and Cash Equivalents**

For the year ended 31 December 2022, our net cash outflow generated from operating activities was RMB6.9 million. This was mainly due to the increase in selling and marketing personnel cost and expenses as the Company ramped up marketing efforts as well as higher personnel costs arising from the demand for R&D personnel with the acceleration of R&D process. In addition, due to the impact of the COVID-19 pandemic, many large and medium-sized cities enforced traffic restrictions, and the stores of health checkup centers were closed, which greatly affected the Company's receivable collection.

For the year ended 31 December 2022, our net cash outflow generated from investing activities was RMB2.6 million, which was mainly due to the acquisition of fixed assets and intangible assets by the Company.

For the year ended 31 December 2022, our net cash inflow generated from financing activities was RMB158.5 million, mainly due to the Company's listing on the Main Board of the Stock Exchange and the receipt of net proceeds from the Global Offering.

As a result of the above, our cash and cash equivalents, which were mainly held in RMB and HKD, increased by 67.2% from RMB239.1 million as of 31 December 2021 to RMB399.8 million as of 31 December 2022.

## Indebtedness

### *Lease liabilities*

As of 31 December 2021 and 31 December 2022, we had outstanding aggregate unpaid contractual lease payments (present value of lease payments for the remainder of relevant lease terms) of RMB11.6 million and RMB11.0 million respectively in relation to the corresponding current and non-current lease liabilities.

Save as lease liabilities, we did not have any outstanding loan, capital issued or agreed to be issued, debt securities, mortgages, charges, debentures, bank overdrafts, loans, unutilized banking facilities or other similar indebtedness, liabilities under acceptances or acceptance credits, hire purchase commitments or other contingent liabilities as of 31 December 2022.

Directors also confirm that, as of 31 December 2022, there was no material change in our Company's indebtedness since 31 December 2021.

### Key Financial Ratios

	For the year ended 31 December	
	2022	2021
Gross profit margin <sup>(1)</sup>	56.1%	70.3%
Net (loss)/profit margin <sup>(2)</sup>	(12.1%)	33.3%
Current ratio <sup>(3)</sup>	7.6	9.8

#### *Notes:*

- (1) The gross profit margin equals gross profit divided by revenue for the year.
- (2) The net profit/(loss) margin equals profit/(loss) for the year divided by revenue for the year.
- (3) The current ratio equals current assets divided by current liabilities as of the end of the period.

## Capital Expenditures

Our principal capital expenditures related primarily to the purchase of equipment and the establishment of an automatic laboratory. The following table sets forth our capital expenditures for the periods indicated.

	For the year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Purchases of property, plant and equipment	5,006	4,159
Purchases of intangible assets	182	263
Total	<u>5,188</u>	<u>4,422</u>

## Contingent Liabilities

As of 31 December 2022, we had no material contingent liabilities.

## Significant Investments and Future Plans for Material Investments or Capital Assets

As of 31 December 2022, we did not hold any material investment.

In addition, save for the expansion plans as disclosed in the sections headed “Business” and “Future Plans and Use of Proceeds” in the Prospectus dated 10 June 2022, we have no future plans for material investments or capital assets.

## Material Acquisitions and Disposals

For the year ended 31 December 2022, we did not make any material acquisitions or disposals of subsidiaries, associates and joint ventures.

## Pledge of Group Assets

As of 31 December 2022, we did not have any charged or pledged assets.

## Final Dividend

The Board has resolved not to declare a final dividend for the year ended 31 December 2022.

## **Annual General Meeting**

The annual general meeting of the Company (“**AGM**”) will be held on Friday, 9 June 2023. A notice convening the AGM will be published and dispatched to the shareholders of the Company in the manner required by the Listing Rules in due course.

## **Closure of Register of Members and Entitlement to Attend and Vote at the AGM**

For the purpose of ascertaining the members’ eligibility to attend and vote at the AGM, the Company’s register of members will be closed from Tuesday, 6 June 2023 to Friday, 9 June 2023, both dates inclusive, during which period no transfer of share will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Monday, 5 June 2023.

## **Company Information**

The Company was incorporated in the Cayman Islands on 22 April 2021 as an exempted company with limited liability, and the shares were listed on the Main Board of the Stock Exchange on 22 June 2022 (the “**Listing Date**”).

## **Employee**

As of 31 December 2022, we had 301 employees, most of whom were based in Beijing. We conduct new staff training regularly to guide new employees and help them adapt to the new working environment. In addition, we provide online and in-person formal and comprehensive company-level and department-level training to our employees on a quarterly basis in addition to on-the-job training. We also encourage our employees to attend external seminars and workshops to enrich their technical knowledge and develop competencies and skills. We also provide training and development programs and external training sessions to our employees from time to time to improve their technical skills and ensure their awareness and compliance with our various policies and procedures.

The compensation of our employees is determined with reference to market conditions and the performance, qualifications and experience of individual employees. We offer competitive compensation packages, including salaries, discretionary bonuses and benefit plans, to retain employees based on the performance of us and individual employees.

The Company adopted a restricted share unit scheme (the “**RSU Scheme**”) on 19 November 2021. On 29 December 2022, the Company granted a total of 27,272,000 RSUs to certain eligible participants of the Company under the RSU Scheme, the principal terms and details of which are set out in the section headed “Appendix IV – Statutory and General Information – D. Restricted Share Unit Scheme” of the Prospectus and the announcement of the Company dated 29 December 2022.

## Material Events After the Reporting Period

As at the date of this announcement, there were no material events after 31 December 2022 that might have a material impact on our operations and financial results.

## Use of Proceeds from the Global Offering

The Company was listed on the Main Board of the Stock Exchange on 22 June 2022. The new shares were issued at HK\$18 per share and a total of 11,961,800 ordinary Shares are offered with a total nominal value of HK\$215.3 million. The net proceeds raised during the Global Offering (net of underwriting commissions and other expenses paid and payable by the Company in connection with the Global Offering), amounted to approximately HK\$153.4 million. Since the Listing Date and up to 31 December 2022, there has been no change in the intended use of the net proceeds previously disclosed in the Prospectus.

The table below sets forth the use of net proceeds from the Global Offering:

Intended use of proceeds	Percentage of intended use of proceeds (%)	Intended use of net proceeds from the Global Offering HK\$ million	Actual amount used as at 31 December 2022 HK\$ million	Unutilized net proceeds as at 31 December 2022 HK\$ million	Schedule of unutilized balances
Sales and Marketing	30	46.0	1.6	44.4	By 30 June 2025
Research and Development	25	38.4	6.3	32.1	By 30 June 2025
Testing Capability and Capacity	20	30.7	4.0	26.7	By 30 June 2025
Investment and Acquisitions	15	23.0	-	23.0	By 30 June 2025
Working Capital and Other Purposes	10	15.3	-	15.3	By 30 June 2025
Total	100	153.4	11.9	141.5	

*Note:*

(1) The figures in the table are approximate figures.

To the extent that the net proceeds from the Global Offering are not immediately applied for the above purposes and to the extent permitted by the relevant law and regulations, we intend to deposit the net proceeds only into short-term deposits with licensed financial institutions in Hong Kong or the PRC. We will make an appropriate announcement if there is any change to the above proposed use of proceeds or if any amount of the proceeds will be used for general corporate purpose.

## Rounding

Certain amounts and percentage figures included in this announcement have been subject to rounding adjustments. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2022

	<i>Notes</i>	<b>2022</b> <b>RMB'000</b>	2021 <i>RMB'000</i>
REVENUE	4	<b>145,727</b>	237,185
Cost of sales		<u><b>(64,004)</b></u>	<u>(70,509)</u>
Gross profit		<b>81,723</b>	166,676
Other income and gains	4	<b>19,221</b>	14,265
Selling and distribution expenses		<b>(34,863)</b>	(22,977)
Administrative expenses		<b>(42,929)</b>	(22,968)
Impairment losses on trade receivables, net		<b>(25,852)</b>	(6,165)
Other expenses		<b>(2,483)</b>	(5,872)
Listing expenses		<b>(15,516)</b>	(20,167)
Finance costs		<b>(719)</b>	(785)
Interest on redemption liabilities on ordinary shares		<u><b>–</b></u>	<u>(6,125)</u>
(LOSS)/PROFIT BEFORE TAX	5	<b>(21,418)</b>	95,882
Income tax credit/(expense)	6	<u><b>3,800</b></u>	<u>(16,867)</u>
(LOSS)/PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><b>(17,618)</b></u>	<u>79,015</u>
Attributable to:			
Owners of the parent		<u><b>(17,618)</b></u>	<u>79,015</u>
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	8	<u><b>RMB(0.09)</b></u>	<u>RMB0.62</u>
Diluted	8	<u><b>RMB(0.09)</b></u>	<u>RMB0.62</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	<i>Notes</i>	<b>2022</b> <b>RMB'000</b>	2021 <i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>36,922</b>	41,245
Advance payments for property, plant and equipment		<b>2,876</b>	1,875
Right-of-use assets		<b>9,990</b>	9,885
Intangible assets		<b>834</b>	811
Financial assets at fair value through profit and loss		<b>30,030</b>	30,200
Deferred tax assets		<b>5,967</b>	2,805
		<hr/>	<hr/>
Total non-current assets		<b>86,619</b>	86,821
<b>CURRENT ASSETS</b>			
Inventories		<b>3,508</b>	3,284
Trade receivables	<i>9</i>	<b>184,823</b>	203,630
Prepayments, other receivables and other assets		<b>30,918</b>	239,352
Cash and cash equivalents		<b>399,831</b>	239,096
		<hr/>	<hr/>
Total current assets		<b>619,080</b>	685,362
<b>CURRENT LIABILITIES</b>			
Trade payables	<i>10</i>	<b>34,757</b>	29,197
Other payables and accruals		<b>39,286</b>	27,243
Lease liabilities		<b>6,480</b>	6,223
Tax payable		<b>123</b>	6,528
Deferred income		<b>600</b>	600
		<hr/>	<hr/>
Total current liabilities		<b>81,246</b>	69,791
<b>NET CURRENT ASSETS</b>			
		<hr/> <b>537,834</b>	<hr/> 615,571
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<hr/> <b>624,453</b>	<hr/> 702,392



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 December 2022

	<b>2022</b>	2021
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>NON-CURRENT LIABILITIES</b>		
Lease liabilities	<b>4,506</b>	5,346
Deferred income	<b>1,950</b>	2,550
	<hr/>	<hr/>
Total non-current liabilities	<b>6,456</b>	7,896
	<hr/>	<hr/>
Net assets	<b>617,997</b>	694,496
	<hr/> <hr/>	<hr/> <hr/>
<b>EQUITY</b>		
Equity attributable to owners of the parent		
Share capital	<b>155</b>	129
Reserves	<b>617,842</b>	694,367
	<hr/>	<hr/>
Total equity	<b>617,997</b>	694,496
	<hr/> <hr/>	<hr/> <hr/>

# NOTES TO FINANCIAL STATEMENTS

31 December 2022

## 1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered address of the Company is Third Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 22 June 2022.

The Company is an investment holding company. During the year, the Company's subsidiaries were principally engaged in the provision of a broad spectrum of genetic testing services.

In the opinion of the directors, the Company does not have an immediate holding company or ultimate holding company. Dr. Yu Rong, Ms. Guo Meiling, Meinian OneHealth Healthcare Holdings Co., Ltd. together with their respective holding companies namely, Yurong Technology Limited, Tianjin Hongzhi Kangjian Management Consulting Partnership (LP), Infinite Galaxy Health Limited and Mei Nian Investment Limited are regarded as a group of the controlling shareholders of the Company as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirement of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2022. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial information of the subsidiaries is prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The nature and the impact of the revised HKFRSs that are applicable to the Group are described below:

- (a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the “**Conceptual Framework**”) issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combinations during the year, the amendments did not have any impact on the financial position and performance of the Group.

- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 Inventories, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendment that is applicable to the Group are as follows:
- *HKFRS 9 Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

### 3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their services and only has one reportable operating segment. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

#### **Geographical information**

During the year, the Group operated within one geographical segment because all of the Group's revenue was generated from customers located in Mainland China. All of the non-current assets of the Group were located in Mainland China.

## Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue during the year is set out below:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Customer A	82,057	88,336
Customer B	N/A*	42,850

\* The corresponding revenue of the customer is not disclosed as the revenue individually did not account for 10% or more of the Group's revenue during the year.

## 4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue from contracts with customers	<u>145,727</u>	<u>237,185</u>

### Revenue from contracts with customers

#### (a) *Disaggregated revenue information*

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
<b>Types of goods or services</b>		
Consumer genetic testing services	80,557	135,469
Cancer screening testing services	65,170	100,585
Others	—	1,131
	<u>145,727</u>	<u>237,185</u>
<b>Timing of revenue recognition</b>		
Goods or service transferred at a point in time	<u>145,727</u>	<u>237,185</u>

### *Geographical markets*

All of the Group's revenues were generated from customers located in Mainland China during the year.

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	<b>2022</b> <b>RMB'000</b>	2021 <i>RMB'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the year:		
Genetic testing services	<b>10,102</b>	10,898

### **(b) Performance obligations**

Information about the Group's performance obligations is summarised below:

#### *Genetic testing services*

The performance obligation of genetic testing services is satisfied upon delivery of testing reports and payment is generally due within three to six months from the date of billing, except for certain customers, where payment in advance is required. The performance obligation of sale of relevant medical materials is satisfied upon receipt of materials by customers and payment is generally due within three to six months from the date of billing, except for certain customers, where payment in advance is required.

#### *Training and consulting services*

The performance obligation of training and consulting services is satisfied upon completion under the contracted schedule and payment is generally due within three to six months from the date of billing.

An analysis of other income and gains is as follows:

	<b>2022</b> <b>RMB'000</b>	2021 <i>RMB'000</i>
Rental income	<b>2,549</b>	10,495
Bank interest income	<b>1,386</b>	269
Government grants*	<b>869</b>	626
Investment income from financial assets at fair value through profit or loss	<b>2,626</b>	2,708
Changes in fair value of financial assets at fair value through profit or loss	–	58
Foreign exchange differences, net	<b>11,749</b>	–
Others	<b>42</b>	109
	<b>19,221</b>	14,265

\* The government grants mainly represent subsidies from the local government to support the Group's operation and to compensate the Group for its purchase of laboratory equipment. During the year, government grants amounting to RMB600,000 (2021: RMB600,000) were recognised from deferred income.

## 5. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived at after charging/(crediting):

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Cost of services provided	64,004	70,509
Depreciation of property, plant and equipment	8,328	8,355
Depreciation of right-of-use assets	6,791	5,412
Amortisation of intangible assets*	159	106
Research and development costs**	19,437	11,407
Lease payments not included in the measurement of lease liabilities	1,256	1,651
Covid-19-related rent concessions from lessors	(159)	(604)
Listing expenses	15,516	20,167
Auditor's remuneration	1,500	94
Bank interest income	(1,386)	(269)
Government grants	(869)	(626)
Investment income from financial assets at fair value through profit or loss	(2,626)	(2,708)
Changes in fair value of financial assets at fair value through profit or loss	170	(58)
Impairment losses on trade receivables, net	25,852	6,165
Foreign exchange differences, net	(11,749)	889
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages and salaries	47,802	32,279
Share-based payment expense	1,467	–
Pension scheme contributions***	5,562	3,192
Staff welfare expenses	897	399
	<u>55,728</u>	<u>35,870</u>

\* The amortisation of intangible assets is included in "Administrative expenses" and "Cost of sales" in the consolidated statements of profit or loss and other comprehensive income.

\*\* Research and development costs are included in "Administrative expenses" in the consolidated statements of profit or loss and other comprehensive income.

\*\*\* There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

## 6. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in this jurisdiction.

The statutory tax rate for the subsidiary in Hong Kong is 16.5% (2021: 16.5%). No Hong Kong profits tax on the subsidiary has been provided as there was no assessable profit arising in Hong Kong during the year (2021: Nil).

The provision for current income tax in Mainland China is based on a statutory tax rate of 25% (2021: 25%) of the assessable profits of the PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law, except for Mega Genomics (Beijing) Co., Ltd. (“Mega Genomics Beijing”), a subsidiary of the Group. Mega Genomics Beijing is qualified as a High-tech Enterprise and was subject to tax at a preferential income tax rate of 15% (2021: 15%).

The income tax (credit)/expense of the Group is analysed as follows:

	<b>2022</b> <b>RMB'000</b>	2021 <i>RMB'000</i>
Current – Mainland China		
Charge for the year	<b>250</b>	17,616
Overprovision in prior years	<b>(888)</b>	–
Deferred tax	<b>(3,162)</b>	(749)
Total tax (credit)/charge for the year	<b>(3,800)</b>	16,867

A reconciliation of the tax (credit)/expense applicable to (loss)/profit before tax at the statutory rate in Mainland China to the tax (credit)/expense at the effective tax rate is as follows:

	<b>2022</b> <b>RMB'000</b>	2021 <i>RMB'000</i>
(Loss)/profit before tax	<b>(21,418)</b>	95,882
Tax at the statutory tax rate of 25% in Mainland China	<b>(5,355)</b>	23,971
Preferential tax rates enacted by local authority	<b>1,381</b>	(11,267)
Additional deductible allowance for research and development expenses	<b>(1,624)</b>	(935)
Expenses not deductible for tax	<b>902</b>	4,637
Tax losses not recognised	<b>1,784</b>	461
Adjustments in respect of current tax of previous periods	<b>(888)</b>	–
Tax (credit)/charge at the Group's effective tax rate	<b>(3,800)</b>	16,867
Effective tax rate	<b>18%</b>	18%



## 7. DIVIDENDS

The board of directors did not recommend the payment of any final dividend for the year (2021: Nil).

## 8. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic (loss)/earnings per share amount is based on the (loss)/profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 206,292,235 (2021: 127,268,240) in issue during the year. The number of shares for the current period has been arrived at after eliminating the shares held under the RSU scheme.

No adjustment has been made to the basic loss per share amount presented for the year ended 31 December 2022 in respect of a dilution as the impact of the RSU scheme had an anti-dilutive effect on the basic loss per share amount presented.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2021 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the year.

## 9. TRADE RECEIVABLES

	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables	<b>223,282</b>	216,237
Impairment	<b>(38,459)</b>	(12,607)
	<b>184,823</b>	203,630

The Group's trading terms with its customers are mainly on credit. The credit terms granted generally ranges from three to six months, depending on the specific payment terms in each contract. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Included in the Group's trade receivables were amounts due from related parties of RMB162,266,000 (2021: RMB98,972,000), which are repayable on credit terms similar to those offered to the customers of the Group.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice dates and net of loss allowance, is as follows:

	<b>2022</b> <i><b>RMB'000</b></i>	2021 <i>RMB'000</i>
Within 3 months	<b>48,703</b>	85,618
3 to 6 months	<b>24,383</b>	42,637
6 to 12 months	<b>29,273</b>	48,472
1 to 2 years	<b>79,608</b>	25,502
Over 2 years	<b>2,856</b>	1,401
	<b>184,823</b>	203,630

#### **10. TRADE PAYABLES**

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	<b>2022</b> <i><b>RMB'000</b></i>	2021 <i>RMB'000</i>
Within 3 months	<b>12,592</b>	18,822
3 to 6 months	<b>8,406</b>	5,871
6 to 12 months	<b>9,847</b>	3,352
1 to 2 years	<b>3,216</b>	506
Over 2 years	<b>696</b>	646
	<b>34,757</b>	29,197

The trade payables are non-interest-bearing and are normally settled within six months.

Included in the Group's trade payables were amounts due to related parties of RMB195,000 (2021: RMB122,000) with credit terms similar to those offered by the related parties to their customers.

## 11. RELATED PARTY TRANSACTIONS

Details of the Group's related parties are as follows:

<b>Company</b>	<b>Relationship with the Company</b>
Dr. Yu Rong	Shareholder and director
Meinian Onehealth healthcare Holdings Co., Ltd. and its subsidiaries ("Meinian Onehealth")	Shareholder
Xiamen Fanding Jiayin Equity Investment Partnership (LP)	Shareholder
Ganzhou Zhangxin Investment Center (LP)	Shareholder
Qingdao Huichuang Qihang Equity Investment Partnership (LP)	Shareholder
Suzhou Ruihua Investment Partnership (LP)	Shareholder
Shanghai Yifangda New Hope Equity Investment Fund (LP)	Shareholder
Tibet Tengyun Investment Management Co., Ltd.	Shareholder

(a) The Group had the following transactions with related parties during the year:

	<b>2022</b>	2021
	<b>RMB'000</b>	<b>RMB'000</b>
Services provided to: (note i)		
Meinian Onehealth	<b>82,057</b>	88,336
Companies controlled by Dr. Yu Rong	<b>9,982</b>	13,807
	<b>92,039</b>	102,143
	<b>2022</b>	2021
	<b>RMB'000</b>	<b>RMB'000</b>
Services provided by: (note i)		
Meinian Onehealth	<b>1,344</b>	721
Companies controlled by Dr. Yu Rong	<b>68</b>	-
	<b>1,412</b>	721
Leases to: (note ii)		
Companies controlled by Dr. Yu Rong	<b>-</b>	8,205
Property management services provided by: (note ii)		
Companies controlled by Dr. Yu Rong	<b>1,996</b>	1,598

Notes:

- (i) The service fee is on normal commercial terms as determined based on arm's length negotiation between the parties with reference to (1) the production cost and gross profit requirements of the Group; (2) the government's prescribed price and the prevailing service fee of a similar service provider in the market; and (3) the sales to the buyer's end customers.
- (ii) The rental and property management service fees were charged with reference to prices mutually agreed between the parties.
- (b) Outstanding balances with related parties:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables		
Meinian Onehealth	95,395	81,390
Companies controlled by Dr. Yu Rong	<u>66,871</u>	<u>17,582</u>
	<u><b>162,266</b></u>	<u>98,972</u>
Other receivables		
Companies controlled by Dr. Yu Rong	7,699	8,115
Xiamen Fanding Jiayin Equity Investment Partnership (LP)*	–	54,000
Ganzhou Zhangxin Investment Center (LP)*	–	50,000
Qingdao Huichuang Qihang Equity Investment Partnership (LP)*	–	35,640
Suzhou Ruihua Investment Partnership (LP)*	–	34,500
Shanghai Yifangda New Hope Equity Investment Fund (LP)*	–	10,000
Tibet Tengyun Investment Management Co., Ltd.*	–	30,000
	<u><b>7,699</b></u>	<u>222,255</u>
Prepayments		
Meinian Onehealth	<u>1,056</u>	<u>–</u>
Trade payable		
Companies controlled by Dr. Yu Rong	<u>195</u>	<u>122</u>
Contract liabilities		
Meinian Onehealth	<u>3,189</u>	<u>5,396</u>
Lease liabilities		
Companies controlled by Dr. Yu Rong	<u>10,986</u>	<u>11,569</u>
Other payable		
Suzhou Ruihua Investment Partnership (LP)*	<u>15,500</u>	<u>–</u>

\* The balances due from shareholders of RMB214,140,000 in aggregate as at 31 December 2021 were non-trade, interest-free, and settled upon the completion of the process of Mega Genomics Beijing's capital reduction in April 2022. The balance due to a shareholder of RMB15,500,000 as at 31 December 2022 was non-trade, interest-free and was resulted from Mega Genomics Beijing's capital reduction.

(c) Compensation of key management personnel of the Group:

	<b>2022</b>	2021
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Salaries, allowances and benefits in kind	<b>2,542</b>	2,750
Share-based payment expense	<b>215</b>	–
Pension scheme contributions	<b>854</b>	836
	<hr/>	<hr/>
Total compensation paid to key management personnel	<b><u>3,611</u></b>	<u>3,586</u>

The related party transactions in respect of the genetic testing services provided to Meinian Onehealth and Dr. Yu Rong (together with companies controlled by Dr. Yu Rong) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

## **ADDITIONAL INFORMATION**

### **Purchase, Sale or Redemption of the Company's Listed Securities**

The Company or any of its subsidiaries did not purchase, sell or redeem any of the Company's listed securities for the year ended 31 December 2022.

### **Compliance with the Corporate Governance Code**

The Company is committed to maintaining and promoting stringent corporate governance. The principle of the Company's corporate governance is to promote effective internal control measures, uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business, to ensure that its affairs are conducted in accordance with applicable laws and regulations and to enhance the transparency and accountability of the Board to all Shareholders.

The Company has adopted the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (The “**Listing Rules**”) as its own code of corporate governance. The Board is of the view that, from the Listing Date to the date of this announcement, the Company has complied with the code provisions as set out in the CG Code.

### **Compliance with the Model Code for Securities Transactions by Directors**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the Group's code of conduct regarding the Directors' securities transactions. Having made specific enquiry of all the Directors, all the Directors confirmed that they have strictly complied with the Model Code from the Listing Date to the date of this announcement.

### **Audit Committee and Review of Financial Information**

The Board has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code. As of the date of this announcement, the Audit Committee consists of three members, namely Mr. Jia Qingfeng, Ms. Guo Meiling and Dr. Zhang Ying. Mr. Jia Qingfeng, being the chairman of the Audit Committee, holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules. The primary duties of the Audit Committee include, without limitation, assisting the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of the Group and overseeing the audit process.

The Audit Committee has reviewed the Group's annual financial statements for the year ended 31 December 2022. The Audit Committee has also reviewed the accounting principles adopted by the Group and discussed auditing, internal control, risk management and financial reporting matters.

### **Scope of Work for Annual Results Announcement by Auditor**

The financial information set out in this announcement does not constitute the Group's audited accounts for the year ended 31 December 2022, but represents an extract from the consolidated financial statements for the year ended 31 December 2022 which have been audited by the auditor of the Company, Ernst & Young, in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

### **Publication of Annual Results Announcement and Annual Report**

This annual results announcement is published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Company ([www.megagenomics.cn](http://www.megagenomics.cn)). The annual report of the Company for the year ended 31 December 2022 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and made available on the same websites in due course.

By order of the Board  
**Mega Genomics Limited**  
**Lin Lin**

*Executive Director and Chairperson*

Hong Kong, 31 March 2023

*As of the date of this announcement, the executive Directors are Dr. Yu Rong, Ms. Lin Lin, Mr. Huang Yufeng and Ms. Jiang Jing; the non-executive Director is Ms. Guo Meiling; and the independent non-executive Directors are Dr. Zhang Ying, Mr. Jia Qingfeng and Dr. Xie Dan.*