

## FINANCIAL INFORMATION

*You should read the following discussion and analysis with our audited consolidated financial information, including the notes thereto, included in the Accountant’s Report in Appendix I to this Document. Our consolidated financial information has been prepared in accordance with IFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions, including the United States.*

*The following discussion and analysis contains forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this document, including the sections headed “Risk Factors” and “Business”.*

### OVERVIEW

We are one of the top three ICL service providers in China in terms of total revenues during the Track Record Period, according to Frost & Sullivan. Our business has demonstrated strong growth during the Track Record Period, with our total revenues increasing at a CAGR of 33.1% from RMB2,741.7 million in 2020 to RMB4,860.6 million in 2022. We offer comprehensive and best-in-class testing services primarily to hospitals and health check centers through an integrated network of 32 self-operated laboratories across China. The high quality of our services is backed by our strong performance in terms of international accreditation and comprehensive testing menu. As of December 31, 2022, 18 of our laboratories were accredited by ISO15189, which enabled us to provide customers with the quality assurance that comes with this rigorous international standard. Our testing portfolio consists of over 4,000 medical diagnostic tests, including over 1,700 routine tests and over 2,300 esoteric tests, as of December 31, 2022. Our testing volume increased by 33.9% from 60.1 million in 2020 to 80.5 million in 2021, and further increased by 104.8% to 164.9 million in 2022. We are committed to continuously serving patients and the general public with our high-quality testing services as a leading ICL service provider in China, and becoming a trusted and reliable partner for medical professionals and the general public.

Aided by the changes implemented by our Controlling Shareholders since 2018, we have experienced rapid growth and strong financial performance during the Track Record Period. Our total revenues grew at a CAGR of 33.1% from RMB2,741.7 million in 2020 to RMB4,860.6 million in 2022. Our net profit increased at a CAGR of 53.8% from RMB289.5 million in 2020 to RMB684.9 million in 2022. Our adjusted EBITDA (non-IFRS measure) grew at a CAGR of 34.0% from RMB567.6 million in 2020 to RMB1,019.8 million in 2022. Our adjusted EBITDA margin (non-IFRS measure) increased from 20.7% in 2020 and 2021 to 21.0% in 2022. Our adjusted net profit (non-IFRS measure) grew at a CAGR of 30.1% from RMB367.0 million in 2020 to RMB621.1 million in 2022. Our adjusted net profit margin (non-IFRS measure) decreased from 13.4% in 2020 and 2021 to 12.8% in 2022. See “– Non-IFRS Measures”.

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### BASIS OF PRESENTATION

The consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows, and the consolidated statements of financial position and a summary of significant accounting policies and other explanatory information of our Group for the Track Record Period (together, the “**Historical Financial Information**”) has been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”), which comprise all standards and interpretations approved by the International Accounting Standards Board (the “**IASB**”). During the Track Record Period, our subsidiaries were principally engaged in providing clinical testing services in the PRC. Pursuant to the Reorganization, as more fully explained in the paragraph headed “Reorganization” in the section headed “History, Development and Reorganization” in the Document, the Company became the holding company of the companies now comprising the Group on 26 December 2008. As the Reorganization only involved inserting new holding companies at the top of an existing company and has not resulted in any changes of economic substance, the Historical Financial Information for the Relevant Periods has been presented as a continuation of the existing company using the pooling of interests method. Accordingly, the Group resulting from the Reorganization is regarded as a continuation of the business operations under Hangzhou Adicon and, for the purpose of this report, the Historical Financial Information has been prepared and presented as a continuation of the Historical Financial Information of Hangzhou Adicon and its subsidiaries, with the assets and liabilities of the Group recognized and measured at the carrying amounts of the business operations under the Historical Financial Information of Hangzhou Adicon for all periods presented.

Hangzhou Adicon and its subsidiaries (collectively, the “**PRC Operating Entities**”) are engaged in the medical diagnostic testing services. Due to the restrictions imposed by the relevant laws and regulatory regime of the PRC on foreign ownership of companies engaging in the medical diagnostic testing services carried out by subsidiaries of the Group, Aidiken WFOE entered into a series of contractual arrangements with Hangzhou Adicon and their equity holders on December 26, 2008 (“**the 2008 Contractual Arrangements**”). The 2008 Contractual Arrangements enable Aidiken WFOE to exercise effective control over the PRC Operating Entities and, accordingly, Aidiken WFOE has rights to variable returns from its involvement with the PRC Operating Entities and has the ability to affect those returns through its power over the PRC Operating Entities. Aidiken WFOE entered into a new series of contractual arrangements (“**the 2018 Contractual Arrangements**”) with Hangzhou Adicon and their equity holders on October 12, 2018. The 2008 Contractual Arrangements terminated hereafter. The 2018 Contractual Arrangements enable Aidiken WFOE to exercise effective control over the PRC Operating Entities and, accordingly, Aidiken WFOE has rights to variable returns from its involvement with the PRC Operating Entities and has the ability to affect those returns through its power over the PRC Operating Entities. Accordingly, the Company regards the PRC Operating Entities as indirect subsidiaries for the purpose of the Historical Financial Information and the historical financial information of the PRC Operating Entities are combined in the Historical Financial Information for the Relevant Periods. Details of the contractual arrangements are disclosed in the section headed “Contractual Arrangements” in the Document.

All IFRSs effective for the accounting period commencing on/or before January 1, 2020, including IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers, IFRS 16 Leases and IFRS 16 Amendments on COVID-19 Related Rent Concession, together with the relevant transitional provisions, have been early adopted in the preparation of the Historical Financial Information throughout the Track Record Period.

The Historical Financial Information has been prepared under the historical cost convention, except for derivative financial instruments, contingent consideration and convertible redeemable preferred shares which have been measured at fair value.

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### MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, affected by a number of factors, some of which are outside of our control, including the following:

#### **Our ability to capture the growth of ICL market and strengthen our testing capabilities**

We believe that our ability to capture the growth of the ICL market is crucial to drive our future growth. According to Frost & Sullivan, the ICL market size in China has been growing rapidly in recent years, reaching RMB22.3 billion in 2021 with a 10.9% CAGR from RMB14.7 billion in 2017, and it is expected to reach up to RMB51.3 billion in 2026, representing a CAGR of 18.2%. During the Track Record Period, we have broadened our test offerings and increased testing volume. Our testing portfolio expanded from approximately 2,400 items in 2020 to 3,100 items in 2021, and further to over 4,000 items in 2022. Our testing volume based on the number of samples tested increased by 33.9% from 60.1 million in 2020 to 80.5 million in 2021, and further by 104.8% to 164.9 million in 2022. For details, see “Business – Our ICL Business” and “Business – Our Tests and Service Offerings” in this document.

We strive to enhance our testing capabilities to further drive our business growth. To this end, we will continue to place a high priority on the development of the latest cutting-edge esoteric tests. We will also continue to increase the number of our ISO15189 accredited laboratories. Our continued ability to capture the growth of the ICL market and strengthen our testing capabilities to drive our business growth directly affect our revenues and results of operations.

#### **Our ability to enhance the breadth and depth of our service network to strengthen our customer base**

Revenues generated from our medical diagnostic testing services contributed a substantial majority of our total revenues during the Track Record Period, accounting for 91.7%, 93.1% and 90.5% of our total revenues in 2020, 2021 and 2022, respectively. Accordingly, the breadth and depth of our coverage of medical institutions can greatly affect our revenues. Leveraging our national laboratory network, we provided services to approximately 19,000, 20,000 and 19,000 customers in 2020, 2021 and 2022, respectively.

Our ability to successfully expand into new markets affects our ability to increase our revenues. We plan to develop our infrastructure in additional geographic markets to further broaden our customer base. In particular, we have built laboratories, sales force, and logistics coverage in provincial capitals as well as lower-tier cities with strong growth potential. We also collaborate with regional market participants to fulfill testing demand in lower-tier cities and rural areas.

#### **Our ability to engage in new technologies and develop new testing methods**

Our ability to leverage new technologies and develop new testing methods for our customers impacts our ability to increase revenues. R&D serves as the backbone of our business. To this end, we are dedicated to continuously developing and refining our technologies and testing methods. We have invested RMB102.0 million, RMB125.4 million and RMB162.7 million in our research and development initiatives in 2020, 2021 and 2022, respectively. As of December 31, 2022, we had nine high-tech R&D laboratories, including two industry leading central R&D laboratories in Shanghai and Hangzhou, as well as seven high-tech R&D laboratories in Hefei, Jinan, Beijing, Nanchang, Fuzhou, Wuhan and Nanjing.

Going forward and in line with our plan to continue to upgrade our offerings, we expect to further increase our R&D investment to fuel the business growth.

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### **Our capabilities to increase operating efficiency and cost management for sustainable growth and profitability**

Enhanced operating efficiency is critical to our success. During the Track Record Period, we have carried out a series of operational initiatives to monitor and measure our laboratory productivity, and improve our overall operating efficiencies, which primarily focuses on employee productivity, and reagents and consumables usage. Our employee productivity, measured by testing volume performed per laboratory employee, grew by 12.4% from 2020 to 2021, and further by 53.5% from 2021 to 2022. As a result, during the Track Record Period, our gross profit grew at a CAGR of 30.3% from RMB1,116.7 million in 2020 to RMB1,896.2 million in 2022. Our gross profit margin decreased from 40.7% in 2020 to 39.0% in 2022. Our adjusted EBITDA (non-IFRS measure) grew at a CAGR of 34.0% from RMB567.6 million in 2020 to RMB1,019.8 million in 2022. Our adjusted EBITDA margin (non-IFRS measure) increased from 20.7% in 2020 and 2021 to 21.0% in 2022. See “– Non-IFRS Measures”.

To sustain our profitability, we will continue to control costs and operating expenses. Additionally, we intend to further enhance laboratory automation, and will closely monitor the efficiency of our laboratories through various benchmarks and indicators.

### **Our ability to capture emerging growth opportunities**

As one of the top ICL service providers in China, we closely monitor market trends, in order to capture growth opportunities when they emerge.

According to Frost & Sullivan, the value of detection, prevention, wellness and personalized care has been increasingly recognized in China, as evidenced by the growth of the health check industry. As of December 31, 2022, we have grown our footprint to span over 930 health check centers.

During the Track Record Period, we have also offered testing services to globally and domestically reputable biopharmaceutical companies and CROs assisting them in streamlining drug development processes, and accelerating clinical trials. We believe that active collaboration with our biopharmaceutical and CRO partners will position us to be a leading participant in future early screening, companion diagnostic and minimal residual disease monitoring diagnostic markets in both a central laboratory capacity and clinical diagnostic capacity.

## **CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES**

We have identified certain accounting policies and estimates that we believe are most significant to the preparation of our consolidated financial statements. See Note 2.3 and Note 3 to the Accountants’ Report included in Appendix I to this Document for details of these accounting policies and estimates.

### **Critical Accounting Policies**

#### ***Revenue Recognition***

##### *Revenue from contracts with customers*

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

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

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

(a) Medical diagnostic testing services

We earn revenue by providing specialized diagnostic testing to hospitals or individual customers based on a written test requisition form. The service period of each specialized diagnostic testing is generally within two to seven business days.

Revenue from specialized diagnostic testing is recognized at a point in time when control of the asset is transferred to the customer, generally on delivery of the testing report.

(b) Sales of medical products

Revenue from the sale of medical products is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the medical products to the customer.

(c) Testing services for R&D projects and others

We generally enter into contracts with CROs with sponsors of clinical trials, pharmaceutical and medical device companies and research institutes to provide research and clinical trial services ranging in duration from one month to several years.

Revenue from testing services for R&D projects and others is recognized overtime when we have an enforceable right to payment for performance completed to date. The progress of research services is measured based on outputs to the satisfaction of related performance obligation of research services (output method). In an output method, revenue is determined by multiplying that percentage of the actual units of output achieved by the total contract value.

Some contracts for the sale of medical products provide customers with rights of return. The rights of return give rise to variable consideration. For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which we will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognized. A right-of-return asset (and the corresponding adjustment to costs of sales) is also recognized for the right to recover products from a customer.

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### *Other income*

Interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Rental income is recognized on a time proportion basis over the lease terms.

### *Fair Value Measurement*

We measure certain financial instruments at fair value at the end of each period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by us. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

We use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly.

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, we determine whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each period.

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



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(iv) reviewing and discussing with our management and the external valuer on the valuation models and approaches; and (v) reviewing the valuation work papers and results prepared by the valuer. Valuation techniques are verified by the independent and recognized international business valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions.

The Reporting Accountants have carried out necessary audit works in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 “Accountants’ Reports on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants for the purpose of expressing an opinion on our Group’s historical financial information for the Track Record Period as a whole in Appendix I to this document. Their opinion on the historical financial information of the Group for the Track Record Period as a whole is set out on pages I-21 and I-22 of Appendix I to the document.

Having considered work done by the Directors and the Reporting Accountants and based on the due diligence work conducted by the Joint Sponsors, including but not limited to, (i) review of relevant notes in the Accountants’ Report as contained in Appendix I of the document and relevant documents provided by the independent external valuer (the “Valuer”); (ii) obtained and reviewed the credentials of the Valuer including the background, qualifications and work experience of its core team members; and (iii) discussed with the Company, the Reporting Accountants and the Valuer about the policies and procedures, key basis and assumptions for the valuation, nothing has come to the Joint Sponsors’ attention that would reasonably cause them to cast doubt on the reasonableness of the explanations of the Directors and Reporting Accountants above.

### *Property and Equipment and Depreciation*

Property and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property and equipment.

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The estimated useful lives of property and equipment are as follows:

Office and electronic equipment	5 years
Laboratory equipment	5 years
Motor vehicles	5 years
Leasehold improvements	5-8 years

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

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

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

### *Impairment of Non-Financial Assets*

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, and financial assets), the asset’s recoverable amount is estimated. An asset’s recoverable amount is the higher of the asset’s or cash-generating unit’s value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Track Record Periods as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

### *Impairment assessment for goodwill*

Goodwill of RMB14,348,000 and RMB11,343,000 was generated from the acquisition of Shangrao Adicon and Jiangxi Jince on February 28, 2021 and goodwill of RMB54,111,000 was generated from the acquisition of Henan Adicon on May 31, 2022. The cash flows generated from Shangrao Adicon and Jiangxi Jince acquired are expected to benefit from the synergies of each other for impairment testing, but are independent from those of our other subsidiaries. Therefore, Goodwill is monitored by our management at the level of the group of cash-generating unit (“CGU”) including Shangrao Adicon and Jiangxi Jince. The goodwill of Henan Adicon CGU is monitored independently.



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The recoverable amounts of each CGU have been determined based on value-in-use calculations using pre-tax cash flow projections, which is based on financial budgets approved by our management covering a five-year period.

<b>Shangrao Adicon and Jiangxi Jince CGU</b>		
<b>As of December 31,</b>		
	<b>2021</b>	<b>2022</b>
Revenue (% compound growth rate) .....	8%	5%
Terminal growth rate .....	3%	2%
Pre-tax discount rate .....	18%	19%
<b>Henan Adicon CGU</b>		
<b>As of December 31, 2022</b>		
Revenue (% compound growth rate) .....	10%	
Terminal growth rate .....	2%	
Pre-tax discount rate .....	22%	

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill for the group of CGUs including Shangrao Adicon and Jiangxi Jince as of December 31, 2022.

**Revenue** – The basis used to determine the budgeted revenue is based on management’s expectation of market development.

**Terminal Growth rate** – The forecasted terminal growth rate is based on management’s expectations and does not exceed the long-term average growth rate for the industry relevant to the CGUs.

The pre-tax discount rate used is before tax and reflects specific risks relating to the CGUs.

Based on the result of impairment assessment, there was no impairment as of December 31, 2022.

Our management has performed sensitivity test by decreasing 1% of expected revenue, decreasing 1% of terminal growth rate or increasing 1% of pre-tax discount rate, with all other assumptions held constant. The impacts on the amount by which each CGU’s recoverable amount above its carrying amount (headroom) are as below:

<b>Shangrao Adicon and Jiangxi Jince CGU</b>		
<b>As of December 31,</b>		
	<b>2021</b>	<b>2022</b>
	<b>RMB’000</b>	<b>RMB’000</b>
Headroom .....	23,904	33,104
Impact by decreasing expected revenue .....	(1,266)	(1,421)
Impact by decreasing terminal growth rate .....	(5,175)	(5,161)
Impact by increasing pre-tax discount rate .....	(8,480)	(7,901)

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	<b>Shangrao Adicon and Jiangxi Jince CGU</b>
	<b>As of December 31, 2022</b>
	<b>RMB'000</b>
Headroom . . . . .	24,903
Impact by decreasing expected revenue . . . . .	(4,902)
Impact by decreasing terminal growth rate . . . . .	(5,822)
Impact by increasing pre-tax discount rate . . . . .	(9,138)

Considering there was still sufficient headroom based on the assessment, our management believes that a reasonably possible change in the above key parameters would not cause the carrying amount of the group of CGUs to exceed its recoverable amount.

### **Critical Accounting Estimates**

#### ***Provision for Expected Credit Losses of Trade and Bills Receivables***

We use a provision matrix to calculate Expected Credit Losses (“ECLs”) for trade and bills receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on our historical observed default rates. We will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. Our historical credit loss experience and forecast of economic conditions may also not be representative of a customer’s actual default in the future. The information about the ECLs on our trade and bills receivables is disclosed in notes 22 and 39 to the Accountants’ Report included in Appendix I to this Document, respectively.

#### ***Deferred Tax Assets***

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management estimation is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying values of deferred tax assets relating to recognized tax losses as of December 31, 2020, 2021 and 2022 were RMB6.4 million, RMB16.9 million and RMB29.3 million, respectively. Further details are given in note 20 to the Accountants’ Report included in Appendix I to this Document.

#### ***Fair Value of Financial Instruments***

The convertible redeemable preferred shares issued by the Group are not traded in an active market and the respective fair values are determined by using valuation techniques, including Black-Scholes option pricing model. The fair values of convertible redeemable preferred shares as of December 31, 2022 were RMB589.2 million. Further details are set out in note 30 to the Accountants’ Report included in Appendix I to this Document.

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The fair values of contingent consideration arising from acquisitions were RMB13.7 million and RMB27.0 million as of December 31, 2021 and 2022, respectively. In connection with the acquisition of Shangrao Adicon and Jiangxi Jince, the Group acquired 61% equity interests in Shangrao Adicon and Jiangxi Jince during 2021 at a total consideration of RMB45.7 million in cash, of which RMB27.7 million had been paid, RMB4.4 million remained in payables for investment and RMB18.1 million recognized as contingent consideration as of December 31, 2022. The Group was also obligated to purchase the remaining non-controlling interests in Shangrao Adicon and Jiangxi Jince from minority shareholders upon satisfaction of certain condition precedents in the relevant share purchase agreements. In addition, in connection with the acquisition of Henan Adicon, the Group acquired 51% equity interests in Henan Adicon during 2022 at a total consideration of RMB88.9 million in cash, of which RMB62.2 million had been paid and RMB26.7 million recognized as contingent consideration. The fair value of the contingent consideration is RMB13.4 million as of December 31, 2022 and the subsequent fair value changes was recognized in profit or loss. The Group is also obligated to purchase 19% equity interests in Henan Adicon from minority shareholders upon satisfaction of certain condition precedents in the relevant share purchase agreements. Further details are set out in note 27 to the Accountants’ Report included in Appendix I to this Document.

The fair values of derivative financial instruments was RMB8.1 million as of December 31, 2022. Further details are set out in note 24 to the Accountants’ Report included in Appendix I to this Document.

### CONSOLIDATED INCOME STATEMENTS

The following table presents items of our consolidated income statements as well as their percentage of our total revenues during the Track Record Period.

	For the Year Ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except for percentages)					
<b>Revenues</b> .....	<b>2,741,731</b>	<b>100.0</b>	<b>3,379,515</b>	<b>100.0</b>	<b>4,860,613</b>	<b>100.0</b>
Costs of sales .....	(1,625,071)	(59.3)	(1,937,126)	(57.3)	(2,964,448)	(61.0)
<b>Gross profit</b> .....	<b>1,116,660</b>	<b>40.7</b>	<b>1,442,389</b>	<b>42.7</b>	<b>1,896,165</b>	<b>39.0</b>
Other income and gains	12,686	0.5	14,763	0.4	50,811	1.0
Selling and marketing expenses .....	(359,051)	(13.1)	(489,783)	(14.5)	(553,272)	(11.4)
Administrative expenses .....	(236,566)	(8.6)	(263,003)	(7.8)	(282,262)	(5.8)
Research and development expenses ..	(102,009)	(3.7)	(125,446)	(3.7)	(162,746)	(3.3)
Other expenses .....	(37,712)	(1.4)	(48,530)	(1.4)	(128,440)	(2.6)
[REDACTED] .....	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Finance costs .....	(19,644)	(0.7)	(16,326)	(0.5)	(76,824)	(1.6)
Fair value (loss)/gain on financial liabilities at FVTPL .....	–	–	(61,531)	(1.8)	87,044	1.8
<b>Profit before tax</b> .....	<b>358,185</b>	<b>13.1</b>	<b>417,243</b>	<b>12.3</b>	<b>820,812</b>	<b>16.9</b>
Income tax expense .....	(68,732)	(2.5)	(94,948)	(2.8)	(135,928)	(2.8)
<b>Profit for the year</b> .....	<b>289,453</b>	<b>10.6</b>	<b>322,295</b>	<b>9.5</b>	<b>684,884</b>	<b>14.1</b>
Attributable to:						
Owners of the parent ...	284,121	10.4	315,540	9.3	680,793	14.0
Non-controlling interests .....	5,332	0.2	6,755	0.2	4,091	0.1

## FINANCIAL INFORMATION

### NON-IFRS MEASURES

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use non-IFRS measures, namely EBITDA (non-IFRS measure), adjusted EBITDA (non-IFRS measure), and adjusted net profit (non-IFRS measure) as additional financial measures, which are not required by or presented in accordance with IFRS. We believe that such non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of certain items. We exclude share-based compensation expenses, [REDACTED] and fair value loss/(gain) on convertible redeemable preferred shares at FVTPL when presenting non-IFRS measures. Share-based compensation expenses are non-cash in nature and do not result in cash outflow, and the adjustment has been consistently made during the Track Record Period. We also exclude [REDACTED] with respect to this [REDACTED]. In addition, we account for the convertible preferred shares as financial liabilities at fair value through profit or loss. The convertible preferred shares will automatically convert into ordinary shares upon the completion of the [REDACTED], and no further loss or gain on fair value changes is expected to be recognized afterwards. The reconciling item is non-cash, and does not result in cash outflow.

We believe that such measures provide useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as it helps our management. However, our presentation of EBITDA (non-IFRS measure), adjusted EBITDA (non-IFRS measure) and adjusted net profit (non-IFRS measure) may not be comparable to similarly titled measures presented by other companies. The use of such non-IFRS measures has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under IFRS.

We define EBITDA (non-IFRS measure) as profit before tax plus depreciation and amortization expenses and finance costs, minus bank interest income. We define adjusted EBITDA (non-IFRS measure) as EBITDA (non-IFRS measure) for the period adjusted by adding back share-based compensation expenses, [REDACTED] and fair value loss/(gain) on convertible redeemable preferred shares at FVTPL.

	For the Year Ended December 31,		
	2020	2021	2022
	(RMB in thousands)		
Profit for the year .....	289,453	322,295	684,884
Add:			
Income tax expenses: .....	68,732	94,948	135,928
Profit before tax .....	358,185	417,243	820,812
Add:			
Depreciation .....	113,118	136,235	188,565
Amortization .....	662	1,617	4,853
Finance costs .....	19,644	16,326	76,824
Less:			
Bank interest income .....	3,765	6,289	8,874
<b>EBITDA (non-IFRS measure) .....</b>	<b>487,844</b>	<b>565,132</b>	<b>1,082,180</b>
Add:			
Share-based compensation expenses .....	63,598	37,325	15,049
[REDACTED] .....	[REDACTED]	[REDACTED]	[REDACTED]
Fair value loss/(gain) on convertible redeemable preferred shares at FVTPL .....	–	61,531	(87,044)
<b>Adjusted EBITDA (non-IFRS measure) .....</b>	<b>567,621</b>	<b>699,278</b>	<b>1,019,849</b>

## FINANCIAL INFORMATION

We define adjusted net profit (non-IFRS measure) as profit for the year adjusted by adding back, net of tax, share-based compensation expenses, [REDACTED] and fair value loss/(gain) on convertible redeemable preferred shares at FVTPL.

	For the Year Ended December 31,		
	2020	2021	2022
	(RMB in thousands)		
Profit for the year .....	289,453	322,295	684,884
Add:			
Share-based compensation expenses .....	63,598	37,325	15,049
[REDACTED] .....	[REDACTED]	[REDACTED]	[REDACTED]
Fair value loss/(gain) on convertible redeemable preferred shares at FVTPL .....	–	61,531	(87,044)
Less:			
Tax shield adjustment .....	2,195	5,203	1,460
<b>Adjusted net profit (non-IFRS measure) .....</b>	<b><u>367,035</u></b>	<b><u>451,238</u></b>	<b><u>621,093</u></b>

## DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

### Revenues

During the Track Record Period, we generated revenues primarily from our medical diagnostic testing services, and to a lesser extent, from sales of medical products. The following table sets forth our revenues from each source for the years indicated:

	For the Year Ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except for percentages)					
Medical diagnostic testing services .....	2,513,184	91.7	3,144,832	93.1	4,400,748	90.5
Sales of medical products .....	228,547	8.3	234,683	6.9	459,865	9.5
<b>Total .....</b>	<b><u>2,741,731</u></b>	<b><u>100.0</u></b>	<b><u>3,379,515</u></b>	<b><u>100.0</u></b>	<b><u>4,860,613</u></b>	<b><u>100.0</u></b>

### Revenues from Medical Diagnostic Testing Services

Revenues generated from our medical diagnostic testing services contributed a substantial majority of our total revenues during the Track Record Period, accounting for 91.7%, 93.1% and 90.5% of our total revenues in 2020, 2021 and 2022, respectively.

## FINANCIAL INFORMATION

The following table sets forth a breakdown of revenues generated from medical diagnostic testing services by specialty group during the Track Record Period:

Specialty Group	For the Year Ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except for percentages)					
Clinical Immunologic Testing . . . . .	698,817	27.8	770,724	24.5	808,785	18.4
Clinical Chemistry Testing . . . . .	160,424	6.4	193,490	6.2	218,499	5.0
Clinical Molecular Biology Testing . . . . .	1,198,891	47.7	1,629,928	51.8	2,707,682	61.5
Pathology Testing . . . . .	256,783	10.2	296,910	9.4	305,919	6.9
Other Comprehensive Inspections . . . . .	198,269	7.9	253,780	8.1	359,863	8.2
<b>Total<sup>(1)</sup> . . . . .</b>	<b><u>2,513,184</u></b>	<b><u>100.0</u></b>	<b><u>3,144,832</u></b>	<b><u>100.0</u></b>	<b><u>4,400,748</u></b>	<b><u>100.0</u></b>

Note:

(1) COVID-19 testing services contributed RMB924.5 million, RMB1,232.4 million and RMB2,284.6 million of our total revenues in 2020, 2021 and 2022, respectively.

The following table sets forth a breakdown of the sample volume and average price of our medical diagnostic testing services by specialty groups during the Track Record Period:

	For the Year Ended December 31,					
	2020		2021		2022	
	Sample Volume	Average Price <sup>(1)</sup>	Sample Volume	Average Price <sup>(1)</sup>	Sample Volume	Average Price <sup>(1)</sup>
	('000)	(RMB)	('000)	(RMB)	('000)	(RMB)
Clinical Immunologic Testing . . . . .	17,408	40.1	17,641	43.7	17,450	46.4
Clinical Chemistry Testing . . . . .	10,405	15.4	12,350	15.7	14,206	15.4
Clinical Molecular Biology Testing . . . . .	15,611	76.8	29,564	55.1	107,790	25.1
Pathology Testing . . . . .	10,794	23.8	12,140	24.5	11,855	25.8
Other Comprehensive Inspections . . . . .	5,880	33.7	8,767	28.9	13,631	26.4
<b>Total . . . . .</b>	<b><u>60,098</u></b>	<b><u>41.8</u></b>	<b><u>80,462</u></b>	<b><u>39.1</u></b>	<b><u>164,932</u></b>	<b><u>26.7</u></b>

Note:

(1) Average price equals revenues of medical diagnostic testing services for the year divided by the total sample volume during the same year.

We experienced strong revenue growth during the Track Record Period, primarily driven by (i) an increasing demand for testing services, (ii) an expanding customer base, and (iii) our offering of COVID-19 tests following the outbreak of pandemic. Alongside with our business expansion, our sample volume increased steadily over the Track Record Period, from 60.1 million in 2020 to 80.5 million in 2021, and further to 164.9 million in 2022. Testing volume in 2020 was adversely affected by the outbreak of COVID-19 pandemic, which resulted in a decline in hospital patient flow, leading to reduced demand of our testing services. Such impact was gradually eased due to the recovery from the COVID-19 impact starting from 2021, when we witnessed steady growth of testing volumes. The substantial increase of testing volume in 2022 was primarily attributable to the more frequent COVID-19 tests taken by individuals and mass testings organized by local governments to contain the spread of Omicron variant across the country.



## FINANCIAL INFORMATION

During the Track Record Period, our average price per sample decreased by 6.5% from RMB41.8 in 2020 to RMB39.1 in 2021 and further decreased by 31.7% to RMB26.7 in 2022, especially in clinical molecular biology testing, which was primarily due to a decline in average price per COVID-19 test, during the Track Record Period.

The following table sets forth a breakdown of the sample volume and average price of our medical diagnostic testing services by COVID-19 testing and non-COVID-19 testing business during the Track Record Period:

	For the Year Ended December 31,					
	2020		2021		2022	
	Sample Volume	Average Price <sup>(1)</sup>	Sample Volume	Average Price <sup>(1)</sup>	Sample Volume	Average Price <sup>(1)</sup>
	('000)	(RMB)	('000)	(RMB)	('000)	(RMB)
Non-COVID-19 testing . . . . .	49,654	32.0	57,332	33.4	64,708	32.7
COVID-19 testing . . . . .	10,444	88.5	23,130	53.3	100,224	22.8
<b>Total . . . . .</b>	<b>60,098</b>	<b>41.8</b>	<b>80,462</b>	<b>39.1</b>	<b>164,932</b>	<b>26.7</b>

*Note:*

(1) Average price equals revenues of respective testing services for a given year divided by the sample volume for each type during the same year.

### *Revenues from Sales of Medical Products*

As a supplement to our core business, we also sell equipment, reagents and consumables used in connection with clinical testing to our customers. Revenues generated from sales of medical products contributed 8.3%, 6.9% and 9.5% of our total revenues in 2020, 2021 and 2022, respectively. For details of our sales of medical products, see “Business – Sales of Medical Products”.

The following table sets forth a breakdown of revenues generated from our sales of medical products by major product types during the Track Record Period:

	For the Year Ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except for percentages)					
Equipment . . . . .	133,146	58.3	66,430	28.3	225,243	49.0
Reagents and consumables . . . . .	95,401	41.7	168,253	71.7	234,622	51.0
<b>Total . . . . .</b>	<b>228,547</b>	<b>100.0</b>	<b>234,683</b>	<b>100.0</b>	<b>459,865</b>	<b>100.0</b>

## FINANCIAL INFORMATION

The following table sets forth a breakdown of the sales volume and average price of our medical products by major product type during the Track Record Period:

	For the Year Ended December 31,					
	2020		2021		2022	
	Sales Volume	Average Price <sup>(1)</sup> (RMB)	Sales Volume	Average Price <sup>(1)</sup> (RMB)	Sales Volume	Average Price <sup>(1)</sup> (RMB)
Equipment . . . . .	697	191,027.3	420	158,166.7	4,646	48,481.0
Reagents and consumables . . . . .	497,421	191.8	2,461,781	68.4	10,765,858	21.8

*Note:*

(1) Average price equals revenues generated from sales of medical products for the year divided by sales volume during the same year.

Sales volume and average price for equipment declined by 39.7% and 17.2% from 2020 to 2021, respectively, primarily due to an increase of sales of equipment with relatively lower unit prices in 2021. As compared to 2021, sales volume for equipment had a significant increase in 2022 whereas the average price for equipment decreased by 69.3%, primarily attributable to an increasing sales of an equipment needed for COVID-19 tests with relatively lower unit prices.

Our sales volume of reagents and consumables increased by 394.9% from 2020 to 2021, whereas the average prices declined by 64.3% during the same period, primarily because we introduced a blood sample collection container with lower unit prices in late 2020 which had strong demand throughout 2021. As compared to 2021, sales volume of reagents and consumables increased by over four-fold in 2022, whereas the average prices declined by 68.1%, primarily due to an increase of sales of reagents and consumables with lower unit prices.

### Costs of Sales

Our costs of sales consists of (i) reagents and consumables costs utilized during the course of processing our test samples, or our purchase costs for our sale of products, (ii) staff costs relating to employee salaries, benefits, social insurance and share based compensation, (iii) laboratory operating costs associated with operation of our laboratory equipment and logistics, (iv) depreciation and amortization, and (v) tax surcharges. The following table sets forth a breakdown of our costs of sales by nature during the Track Record Period:

	For the Year Ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except for percentages)					
Reagents and consumables . . . . .	1,073,649	66.1	1,193,148	61.7	1,821,220	61.5
Staff costs . . . . .	314,708	19.4	408,443	21.1	593,946	21.0
Laboratory operating costs . . . . .	156,465	9.6	225,625	11.6	394,939	13.3
Depreciation and amortization . . . . .	78,612	4.8	108,081	5.6	151,062	5.1
Tax surcharges . . . . .	1,637	0.1	1,829	0.1	3,281	0.1
<b>Total . . . . .</b>	<b><u>1,625,071</u></b>	<b><u>100.0</u></b>	<b><u>1,937,126</u></b>	<b><u>100.0</u></b>	<b><u>2,964,448</u></b>	<b><u>100.0</u></b>

## FINANCIAL INFORMATION

### Gross Profit and Gross Profit Margin

The following table sets forth a breakdown of our gross profit and gross profit margin by business lines during the Track Record Period:

	For the Year Ended December 31,		
	2020	2021	2022
	(RMB in thousands, except for percentages)		
<b>Gross Profit</b>			
Medical diagnostic testing services .....	1,067,662	1,369,703	1,801,912
Sales of medical products .....	48,998	72,687	94,253
<b>Total</b> .....	<b>1,116,660</b>	<b>1,442,390</b>	<b>1,896,165</b>
<b>Gross Profit Margin</b>			
Medical diagnostic testing services .....	42.5%	43.6%	40.9%
Sales of medical products .....	21.4%	31.0%	20.5%
<b>Total</b> .....	<b>40.7%</b>	<b>42.7%</b>	<b>39.0%</b>

### Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of (i) staff costs in relation to our selling and marketing personnel, (ii) marketing and business development expenses, which refers to expenses associated with various marketing and business development activities, such as business travels for marketing purposes and participation in conferences, and (iii) office expenses, including rental, depreciation and amortization. The following table sets forth a breakdown of our total selling and marketing expenses during the Track Record Period:

	For the Year Ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except for percentages)					
Staff costs .....	223,978	62.4	299,443	61.2	345,261	62.4
Marketing and business development expenses .....	91,747	25.6	112,830	23.0	118,735	21.5
Office expenses .....	12,717	3.5	18,332	3.7	23,446	4.2
Others <sup>(1)</sup> .....	30,609	8.5	59,178	12.1	65,830	11.9
<b>Total</b> .....	<b>359,051</b>	<b>100.0</b>	<b>489,783</b>	<b>100.0</b>	<b>553,272</b>	<b>100.0</b>

*Note:*

(1) Others include professional service fees, communication expenses, shipping expenses, and utilities expenses.

## FINANCIAL INFORMATION

### Administrative Expenses

Our administrative expenses primarily consist of (i) staff costs in relation to our administrative personnel, (ii) office expenses, including rental, depreciation and amortization, and (iii) consulting and professional service fees. The following table sets forth a breakdown of our total administrative expenses during the Track Record Period:

	For the Year Ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except for percentages)					
Staff costs .....	147,343	62.3	168,411	64.0	174,536	61.8
Consulting and professional service fees .....	44,295	18.7	31,886	12.1	27,299	9.7
Office expenses .....	23,549	10.0	32,954	12.6	42,383	15.0
Others <sup>(1)</sup> .....	21,379	9.0	29,752	11.3	38,044	13.5
<b>Total</b> .....	<b>236,566</b>	<b>100.0</b>	<b>263,003</b>	<b>100.0</b>	<b>282,262</b>	<b>100.0</b>

*Note:*

(1) Others include conference, travel, maintenance and utilities expenses.

### Research and Development Expenses

Our research and development expenses primarily consist of (i) staff costs in relation to our research and development personnel, (ii) laboratory expenses, including rental, depreciation and amortization, and (iii) costs of reagent and consumables used in our research and development processes. The following table sets forth a breakdown of our total research and development expenses during the Track Record Period:

	For the Year Ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except for percentages)					
Staff costs .....	43,058	42.2	67,943	54.2	84,982	52.2
Laboratory expenses .....	11,916	11.7	6,906	5.5	8,031	4.9
Reagent consumables .....	44,851	44.0	47,430	37.8	63,296	38.9
Others <sup>(1)</sup> .....	2,183	2.1	3,167	2.5	6,527	4.0
<b>Total</b> .....	<b>102,009</b>	<b>100.0</b>	<b>125,446</b>	<b>100.0</b>	<b>162,746</b>	<b>100.0</b>

*Note:*

(1) Others include utilities expenses and maintenance expenses.

## FINANCIAL INFORMATION

### Other Expenses

Our other expenses primarily consist of impairment losses, net of reversal, on financial assets under ECL model, bank charges, foreign exchange losses or gains, losses on disposal of property and equipment and other intangible assets and losses on disposal of items of right-of-use assets. The following table sets forth a breakdown of our other expenses during the Track Record Period:

	For the Year Ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except for percentages)					
Impairment losses, net of reversal						
– Inventories	–	–	–	–	1,421	1.1
– Financial assets under ECL model	32,556	86.3	39,704	81.8	111,653	86.9
Bank charges	2,785	7.4	777	1.6	1,580	1.2
Foreign exchange losses/(gains), net	(1,427)	(3.8)	50	0.1	6,743	5.3
Losses on disposal of property and equipment and other intangible assets	1,684	4.5	3,713	7.7	2,408	1.9
Loss on disposal of items of right-of-use assets	312	0.8	–	–	–	–
Donation	–	–	2,582	5.3	3,523	2.7
Others	1,802	4.8	1,704	3.5	1,112	0.9
<b>Total</b>	<b>37,712</b>	<b>100.0</b>	<b>48,530</b>	<b>100.0</b>	<b>128,440</b>	<b>100.0</b>

### Other Income and Gains

Other income and gains primarily consist of (i) discretionary government grants income, including various one-off government grants to support our employment, innovation and technology efforts, as well as grants related to COVID-19, (ii) bank interest income, (iii) gain on contingent consideration, and (iv) gain on derivative financial instruments. The following table sets forth a breakdown of our total other income and gains during the Track Record Period:

	For the Year Ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except for percentages)					
Bank interest income	3,765	29.7	6,289	42.6	8,874	17.5
Government grants income	5,651	44.5	5,547	37.6	15,916	31.3
Gain on disposal of property, plant and equipment and other intangible assets	267	2.1	379	2.6	650	1.3
Gain on disposal of items of right-of-use assets	–	–	419	2.8	6	0.0
COVID-19 related rent concessions	2,439	19.2	–	–	–	–
Gain on derivative financial instruments	–	–	–	–	7,827	15.4
Gain on contingent consideration	–	–	–	–	13,337	26.2
Others	564	4.5	2,129	14.4	4,201	8.3
<b>Total</b>	<b>12,686</b>	<b>100.0</b>	<b>14,763</b>	<b>100.0</b>	<b>50,811</b>	<b>100.0</b>

## FINANCIAL INFORMATION

### Finance Costs

Finance costs consist of (i) interest expenses on bank borrowings, and lease liabilities and (ii) loans from shareholders. The following table sets forth the breakdown of our finance costs during the Track Record Period:

	For the Year Ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except for percentages)					
Interest expenses on:						
Bank borrowings .....	6,613	33.7	5,702	34.9	49,667	64.7
Lease liabilities .....	10,833	55.1	10,624	65.1	13,705	17.8
Loans from shareholders ...	2,198	11.2	–	–	–	–
Transaction costs for derivative financial instruments .....	–	–	–	–	13,452	17.5
<b>Total .....</b>	<b>19,644</b>	<b>100.0</b>	<b>16,326</b>	<b>100.0</b>	<b>76,824</b>	<b>100.0</b>

### Income Tax Expenses

Income tax expenses consist of current income tax and deferred income tax. The following table sets forth the breakdown of our income tax expenses during the Track Record Period:

	For the Year Ended December 31,		
	2020	2021	2022
	(RMB in thousands)		
Current income tax .....	82,613	113,302	175,122
Deferred income tax .....	(13,881)	(18,354)	(39,194)
<b>Total .....</b>	<b>68,732</b>	<b>94,948</b>	<b>135,928</b>

Our effective income tax rate, calculated by dividing total income tax expenses by profit before tax, was 19.2%, 22.8% and 16.6% in 2020, 2021 and 2022, respectively. Our effective income tax rate increased slightly in 2021 as compared to 2020, primarily because certain of our subsidiaries turned profitable in 2021 whose enterprise income tax rates were 25%, resulting in an increase in our overall effective tax rate. Our effective income tax rate decreased from 22.8% in 2021 to 16.6% in 2022, primarily because the Company recognized RMB87.0 million gains of changes in fair value of convertible redeemable preferred shares, which was subject to zero tax rate in its offshore jurisdiction. During the Track Record Period and up to the Latest Practicable Date, we paid all relevant taxes that were due and applicable to us and had no disputes or unresolved tax issues with relevant tax authorities.

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

### Cayman Islands

Under the current laws of the Cayman Islands, we are not subject to tax on income or capital gains.



## FINANCIAL INFORMATION

### *Hong Kong*

The subsidiary which operates in Hong Kong is subject to profits tax at a rate of 8.25% applies to the first HKD2,000,000 of assessable profits, the remaining assessable profits is subject to profits tax at a rate of 16.5%.

Pursuant to the PRC Enterprise Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from January 1, 2008 and applies to earnings after December 31, 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from January 1, 2008.

### *PRC*

Pursuant to the Enterprise Income Tax Law of the PRC and the respective regulations (the “EIT Law”), the subsidiaries which operate in the PRC are subject to EIT at a rate of 25% on the taxable income, unless those subsidiaries are eligible for the following tax concessions (i) high and new technology enterprises which are entitled to a preferential EIT rate of 15%, (ii) qualified enterprises incorporated in western regions which are entitled to a preferential EIT rate of 15%, and (iii) small enterprises which are entitled to a preferential EIT rate of 20%. The following table sets forth applicable tax rates for our subsidiaries during the Track Record Period:

Entity	For the Year Ended December 31,		
	2020	2021	2022
Hangzhou Adicon . . . . .	15%	15%	15%
Hefei Adicon . . . . .	15%	15%	15%
Shanghai Adicon . . . . .	15%	15%	15%
Jinan Adicon . . . . .	15%	15%	15%
Beijing Adicon . . . . .	15%	15%	15%
Nanchang Adicon . . . . .	15%	15%	15%
Fuzhou Adicon . . . . .	15%	15%	15%
Nanjing Adicon . . . . .	15%	15%	15%
Wuhan Adicon . . . . .	15%	15%	15%
Chengdu Adicon . . . . .	15%	15%	15%
Xi’an Adicon . . . . .	15%	15%	15%
Chongqing Adicon . . . . .	15%	15%	15%
Yunnan Adicon . . . . .	15%	15%	15%
Hangzhou Huitu . . . . .	25%	25%	25%
Shanghai Lv’angjie . . . . .	20%	25%	25%
Guizhou Adicon . . . . .	N/A	15%	15%
Xiamen Adicon . . . . .	N/A	20%	25%
Nanning Adicon . . . . .	N/A	20%	20%
Qingdao Adicon . . . . .	N/A	20%	25%
Quzhou Adicon . . . . .	N/A	20%	20%

### **Profit for the Year**

As a result of the foregoing, our profit amounted to RMB289.5 million, RMB322.3 million and RMB684.9 million in 2020, 2021 and 2022, respectively.

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## FINANCIAL INFORMATION

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### YEAR-TO-YEAR COMPARISON OF RESULTS OF OPERATIONS

#### Year Ended December 31, 2021 Compared to Year Ended December 31, 2022

##### *Revenues*

Our revenues increased by 43.8% from RMB3,379.5 million in 2021 to RMB4,860.6 million in 2022, primarily attributable to the growth in our clinical molecular biology, clinical immunology and other comprehensive inspections.

Revenues generated from our medical diagnostic testing services increased by 39.9% from RMB3,144.8 million in 2021 to RMB4,400.7 million in 2022, primarily due to (i) an increase of sample volume driven by our newly opened laboratories, and (ii) continued growth in clinical molecular biology testing group, as a result of increased amount of COVID-19 mass testing during 2022 in response to the Omicron variant spread across the country.

Revenues generated from our sales of medical products increased by 96.0% from RMB234.7 million in 2021 to RMB459.9 million in 2022, primarily due to (i) significant growth in sales volume of reagents and consumables, which increased by over four-fold from 2.5 million to 10.8 million, and (ii) an increase in sales volume of molecular biology equipment.

##### *Cost of Sales*

Our cost of sales increased by 53.0% from RMB1,937.1 million in 2021 to RMB2,964.4 million in 2022, primarily attributable to (i) an increase of RMB628.1 million in reagents and consumables costs in line with our increased testing volume, (ii) an increase of RMB185.5 million in staff costs due to the increased number of staff and the increased remuneration and compensation paid to our laboratory personnel, and (iii) an increase of RMB169.3 million in laboratory operating costs in connection with our increased testing volume.

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

As a result of the foregoing, our gross profit increased by 31.5% from RMB1,442.4 million in 2021 to RMB1,896.2 million in 2022, with that of (i) medical diagnostic testing services increased by 31.6% from RMB1,369.7 million to RMB1,801.9 million, and (ii) medical products increased by 29.7% from RMB72.7 million to RMB94.3 million. Our gross profit margin decreased from 42.7% to 39.0%, with that of (i) medical diagnostic testing services decreased from 43.6% to 40.9%, primarily due to an increased volume of COVID-19 mass tests that were subject to a continued decline in average price per test during the period, and (ii) medical products decreased from 31.0% to 20.5%, primarily attributable to the increased sales of molecular biology equipment in 2022 with relatively lower margin contribution.

##### *Selling and Marketing Expenses*

Our selling and marketing expenses increased by 13.0% from RMB489.8 million in 2021 to RMB553.3 million in 2022, primarily due to an increase of RMB45.8 million in staff costs, primarily driven by the increase in sales and marketing personnel, particularly those focusing on esoteric tests.

##### *Administrative Expenses*

Our administrative expenses increased by 7.3% from RMB263.0 million in 2021 to RMB282.3 million in 2022, primarily due to the increase in our office expenses, staff cost and other expenses such as those related to the establishment of additional subsidiaries, as well as conference and travel expenses which is in line with our expansion.

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## FINANCIAL INFORMATION

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### *Research and Development Expenses*

Our research and development expenses increased by 29.7% from RMB125.4 million in 2021 to RMB162.7 million in 2022, primarily attributable to (i) an increase of RMB16.9 million in staff costs due to the increased number of R&D personnel, and (ii) an increase of RMB15.9 million in reagent and consumables costs as a result of our increased R&D efforts in strengthening our testing capabilities.

### *Other Expenses*

Our other expenses increased from RMB48.5 million in 2021 to RMB128.4 million in 2022, primarily due to (i) an increase of RMB73.4 million in impairment losses, net of reversal, consisting of RMB71.9 million in financial assets under ECL model primarily due to an increasing amount of COVID-19 mass testing we performed in 2022, which drove (x) the increase of ECL rate for trade receivables due within one year, and (y) the balance of our trade and bill receivables due from customers, as local governments who organized mass testing normally have longer payment terms, and (ii) an increase of RMB6.7 million in foreign exchange losses, net, resulting from currency fluctuations in 2022.

[REDACTED]

We incurred [REDACTED] of RMB[REDACTED] in connection with this proposed [REDACTED] in 2022, as compared to RMB[REDACTED] in 2021.

### *Other Income and Gains*

Our other income and gains increased from RMB14.8 million in 2021 to RMB50.8 million in 2022, primarily due to (i) an additional RMB13.3 million of fair value gain on contingent consideration under valuation adjustment mechanism relating to our acquisition of Henan Adicon, (ii) an increase of RMB10.4 million in government grants, primarily consist of employment and enterprise supporting grants and high-tech enterprise grants, and (iii) an addition of RMB7.8 million of gain on derivative financial instruments, referring to the hedging products we purchased to manage the interest rate risk associated with our credit facilities.

### *Finance Costs*

Our finance costs increased from RMB16.3 million in 2021 to RMB76.8 million in 2022, primarily due to (i) an additional transaction costs of RMB13.5 million for derivative financial instruments, representing primarily arrangement fees charged by banks for credit facilities we entered in July 2022, as well as additional hedging products we purchased to manage the interest rate risk associated with such credit facilities, and (ii) an increase of RMB44.0 million in interest from bank borrowings.

### *Income Tax Expenses*

Our income tax expenses increased by 43.2% from RMB94.9 million in 2021 to RMB135.9 million in 2022, primarily because our profit before tax increased by 96.7% from RMB417.2 million in 2021 to RMB820.8 million in 2022. Our effective income tax rate decreased from 22.8% in 2021 to 16.6% in 2022, primarily because we recognized RMB87.0 million of gains on changes in fair value of convertible redeemable preferred shares which was subject to zero tax rate.

### *Profit for the Year*

As a result of the foregoing, our profit for the year increased by 112.5% from RMB322.3 million in 2021 to RMB684.9 million in 2022, primarily attributable to our increased economies of scale, and the overall growth across all specialty testing groups.

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## FINANCIAL INFORMATION

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

#### *Revenues*

Our revenues increased by 23.3% from RMB2,741.7 million in 2020 to RMB3,379.5 million in 2021, primarily attributable to the growth in our molecular biology, clinical immunology and other comprehensive inspections testing groups.

Revenues generated from our medical diagnostic testing services increased by 25.1% from RMB2,513.2 million in 2020 to RMB3,144.8 million in 2021. All of our specialty groups registered growth in both revenues and sample volume, in particular the molecular biology and other comprehensive inspections segments, which was due to the continued expansion of our overall business and focus on the growth of esoteric testing in 2021.

Revenues generated from our sales of medical products increased by 2.7% from RMB228.5 million in 2020 to RMB234.7 million in 2021, primarily due to significant growth in sales volume of our reagents and consumables because we put more efforts in expanding sales of reagents in 2021.

#### *Cost of Sales*

Our cost of sales increased by 19.2% from RMB1,625.1 million in 2020 to RMB1,937.1 million in 2021, primarily attributable to (i) an increase of RMB119.5 million in reagent and consumable costs in connection with our increased testing volume, (ii) an increase of RMB93.7 million in staff costs due to the increased number of staff and the increased remuneration and compensation paid to our laboratory personnel, and (iii) an increase of RMB69.2 million in laboratory operating costs in connection with our increased testing volume.

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

As a result of the foregoing, our gross profit increased by 29.2% from RMB1,116.7 million in 2020 to RMB1,442.4 million in 2021, and our gross profit margin increased from 40.7% in 2020 to 42.7% in 2021. Specifically, gross profit for medical diagnostic testing services increased by 28.3% from RMB1,067.7 million in 2020 to RMB1,369.7 million in 2021, and the gross profit margin increased from 42.5% in 2020 to 43.6% in 2021. Gross profit for sales of medical products increased by 48.4% from RMB49.0 million in 2020 to RMB72.7 million in 2021, and the gross profit margin increased from 21.4% in 2020 to 31.0% in 2021. Such increases were primarily attributable to an improvement in our reagents and consumables margins resulting from our centralized procurement initiatives and localization of reagents as well as continuing improvements in operating scale.

Leveraging our nationwide laboratory network and strong purchasing power, we initiated centralized procurement for reagents and consumables to achieve cost savings. In general, our experienced procurement team in headquarters negotiates with and coordinates suppliers and vendors to aggregate purchase volume and thereby secure better terms for our subsidiaries. All of our suppliers and vendors are periodically tendered to ensure that we are able to take advantage of our operating scale effectively and ensure optimal and cost-effective reagents and consumables for delivering testing services. Moreover, our continued improvements in operating scale and business growth enabled us to gain stronger bargaining power with our suppliers, which further fueled increase of margins.

Since 2019, we have begun to systematically look for supplier alternatives that can replace the use of typically more costly imported reagents. In order to ensure that local suppliers can provide a comparable level of quality and consistency, we internally validate local suppliers' offerings, and only cooperate with those that meet our standards. For suppliers that meet our requirements, we will make an effort to transit our testing volume to lower cost local suppliers for these reagents. We are in a continuous process of assessing and validating new local supplier alternatives on a test-by-test or testing group-by-testing group basis and have been able to secure the benefits of lower costs while maintaining the same strict quality standards of imported equipment and reagents.

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## FINANCIAL INFORMATION

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### *Selling and Marketing Expenses*

Our selling and marketing expenses increased by 36.4% from RMB359.1 million in 2020 to RMB489.8 million in 2021, primarily due to an increase of RMB75.5 million in staff cost as a result of expansion of our sales and marketing team to further strengthen our esoteric sales capabilities.

### *Administrative Expenses*

Our administrative expenses increased by 11.2% from RMB236.6 million in 2020 to RMB263.0 million in 2021, primarily due to an increase of RMB21.1 million in staff cost primarily as a result of the addition of certain management personnel.

### *Research and Development Expenses*

Our research and development expenses increased by 23.0% from RMB102.0 million in 2020 to RMB125.4 million in 2021, primarily attributable to an increase of RMB24.9 million in staff costs as a result of our efforts in expanding our test offerings.

### *Other Expenses*

Our other expenses increased by 28.7% from RMB37.7 million in 2020 to RMB48.5 million in 2021, primarily due to (i) an increase of RMB7.1 million in provisions for expected credit losses, net of reversal, and (ii) an increase of RMB2.6 million in charity donations and contributions for disaster relief.

### [REDACTED]

Our [REDACTED] increased by [REDACTED]% from RMB[REDACTED] in 2020 to RMB[REDACTED] in 2021.

### *Other Income and Gains*

Our other income and gains increased by 16.4% from RMB12.7 million in 2020 to RMB14.8 million in 2021, primarily due to an increase of RMB2.5 million in bank interest income, which is partially offset by the cessation of COVID-19 related rent concessions in 2021.

### *Finance Costs*

Our finance costs decreased by 16.9% from RMB19.6 million in 2020 to RMB16.3 million in 2021, primarily due to a decrease in outstanding balance of interest-bearing bank borrowings and the repayment of shareholder loans.

### *Income Tax Expenses*

Our income tax expenses increased by 38.1% from RMB68.7 million in 2020 to RMB94.9 million in 2021, primarily because our profit before tax increased by 16.5% from RMB358.2 million in 2020 to RMB417.2 million in 2021. Our effective income tax rate increased from 19.2% in 2020 to 22.8% in 2021, primarily because certain of our subsidiaries turned profitable in 2021 whose enterprise income tax rates were 25%, resulting in an increase in the overall effective tax rate.

### *Profit for the year*

As a result of the foregoing, our profit for the year increased by 11.3% from RMB289.5 million in 2020 to RMB322.3 million in 2021, primarily attributable to the overall growth across all specialty groups and increased gross profit margin, which is partially offset by [REDACTED] and fair value losses.

## FINANCIAL INFORMATION

### DISCUSSION OF CERTAIN KEY CONSOLIDATED BALANCE SHEETS ITEMS

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated, which have been extracted from the Accountants’ Report included in Appendix I to this Document:

	As of December 31,		
	2020	2021	2022
(RMB in thousands)			
Total non-current assets	388,629	571,734	959,261
Total current assets	2,334,912	2,538,104	3,894,972
<b>Total assets</b>	<b>2,723,541</b>	<b>3,109,838</b>	<b>4,854,233</b>
Total current liabilities	1,008,970	1,387,774	2,418,432
<b>Net current assets</b>	<b>1,325,942</b>	<b>1,150,330</b>	<b>1,476,540</b>
<b>Total assets less current liabilities</b>	<b>1,714,571</b>	<b>1,722,064</b>	<b>2,435,801</b>
Total non-current liabilities	675,453	869,217	1,823,465
<b>Total liabilities</b>	<b>1,684,423</b>	<b>2,256,991</b>	<b>4,241,897</b>
<b>Net assets</b>	<b>1,039,118</b>	<b>852,847</b>	<b>612,336</b>
Share capital	77	86	86
Reserves	1,024,262	804,155	510,738
Non-controlling interests	14,779	48,606	101,512
<b>Total equity</b>	<b>1,039,118</b>	<b>852,847</b>	<b>612,336</b>

### Net Current Assets/Liabilities

The following table sets forth our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of
	2020	2021	2022	January 31,
(RMB in thousands)				2023
				(unaudited)
<b>Current assets:</b>				
Inventories	102,932	109,395	229,413	238,915
Trade and bills receivables	942,041	1,213,512	1,856,847	1,787,597
Prepayments, deposits and other receivables	61,120	105,716	127,860	156,016
Amounts due from related parties	199	270	227	155
Cash and bank balances	1,228,620	1,109,211	1,680,625	1,289,516
<b>Total current assets</b>	<b>2,334,912</b>	<b>2,538,104</b>	<b>3,894,972</b>	<b>3,472,199</b>
<b>Current liabilities:</b>				
Trade payables	383,775	510,691	1,062,452	852,849
Other payables and accruals	365,428	689,136	985,104	720,606
Contract liabilities	11,665	20,683	21,060	29,465
Interest-bearing bank borrowings	120,178	49,141	112,792	100,165
Profit tax payable	44,078	50,303	124,553	57,229
Amounts due to related parties	55,430	36,167	61,071	28,738
Lease liabilities	28,416	31,653	51,400	32,634
<b>Total current liabilities</b>	<b>1,008,970</b>	<b>1,387,774</b>	<b>2,418,432</b>	<b>1,821,686</b>
<b>Net current assets</b>	<b>1,325,942</b>	<b>1,150,330</b>	<b>1,476,540</b>	<b>1,650,513</b>



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Our net current assets decreased from RMB1,325.9 million as of December 31, 2020 to RMB1,150.3 million as of December 31, 2021, primarily due to an increase of RMB323.7 million in other payables and accruals, an increase of RMB126.9 million in trade and bill payables, and a decrease of RMB119.4 million in cash and bank balances. The decrease was partially offset by an increase of RMB271.5 million in trade and bill receivables.

Our net current assets increased from RMB1,150.3 million as of December 31, 2021 to RMB1,476.5 million as of December 31, 2022, primarily due to an increase of RMB643.3 million in trade and bills receivables and RMB571.4 million in cash and bank balances. The increase was partially offset by an increase of RMB551.8 million in trade payables and an increase of RMB296.0 million in other payables and accruals.

### Inventories

Our inventories consist of reagents, finished goods and consumables. Finished goods refer to equipment and instruments we sell to our customers. The table below sets forth our inventory balances as of the dates indicated:

	As of December 31,		
	2020	2021	2022
	(RMB in thousands)		
Reagents .....	72,705	85,557	137,936
Finished goods .....	13,869	6,821	69,827
Consumables .....	16,358	17,017	21,650
<b>Total</b> .....	<b>102,932</b>	<b>109,395</b>	<b>229,413</b>

Our inventory balance increased by 6.3% from RMB102.9 million as of December 31, 2020 to RMB109.4 million as of December 31, 2021, primarily due to a continued increase in our reagents and consumables in line with our business growth during the Track Record Period. Our inventory balance increased by 109.7% from RMB109.4 million as of December 31, 2021 to RMB229.4 million as of December 31, 2022, primarily due to an earlier stock-up of reagents, equipment and instruments as a result of early Chinese New Year season in 2023.

Our inventory turnover days remained relatively stable during the Track Record Period. The table below sets forth our inventory turnover days during the Track Record Period:

	For the Year Ended December 31,		
	2020	2021	2022
Inventory turnover days <sup>(1)</sup> .....	21	20	21

*Note:*

(1) We calculate the inventory turnover days using the average balance of inventory for the year, divided by costs of sales for the same year, multiplied by 365 days for 2020, 2021 and 2022.

As of February 28, 2023, RMB153.7 million, or 66.6% of our inventories outstanding as of December 31, 2022 was sold or utilized. This was primarily due to an early Chinese New Year in 2023, which resulted in seasonal slowdown in January 2023.

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### Trade and Bills Receivables

Our trade and bills receivables primarily consist of: (i) trade receivables, (ii) bills receivable and (iii) allowance for expected credit losses. Trade receivables are amounts due from customers, in most cases for our business during the Track Record Period, for our medical diagnostic testing services and sales of medical products as agreed in pre-determined arrangements. Trade receivables are classified as current assets if they are expected to be collected in one year or less (or more than one year within the normal operating cycle of the applicable business). Otherwise, they are presented as non-current.

The following table sets forth our trade and other receivables as of the dates indicated:

	As of December 31,		
	2020	2021	2022
(RMB in thousands)			
Trade receivables . . . . .	988,040	1,285,447	2,043,901
Bills receivables <sup>(1)</sup> . . . . .	–	3,140	3,253
Allowance for expected credit losses . . . . .	(45,999)	(75,075)	(190,307)
<b>Total</b> . . . . .	<b>942,041</b>	<b>1,213,512</b>	<b>1,856,847</b>

*Note:*

(1) Bills receivables are subject to impairment under the general approach and it is considered to be minimal.

Our trade and bills receivables increased by 28.8% from RMB942.0 million as of December 31, 2020 to RMB1,213.5 million as of December 31, 2021, and further by 53.0% to RMB1,856.8 million as of December 31, 2022, primarily due to an increase in trade receivables as a result of increases in our testing volume, in particular, COVID-19 tests. As compared to 2021, we recorded increased amount of allowance for expected credit losses in 2022 to recognize the risks relating to receivables of COVID-19 mass testing, which may have relatively longer payment periods.

The following table sets forth an aging analysis of our trade receivables based on invoice dates as of the dates indicated:

	As of December 31,		
	2020	2021	2022
(RMB in thousands)			
Within 4 months . . . . .	712,820	862,541	1,193,621
4 months to 1 year . . . . .	191,736	316,367	605,992
1 year to 2 years . . . . .	65,061	87,890	196,608
2 years to 3 years . . . . .	14,775	14,643	38,161
3 years to 4 years . . . . .	2,810	3,428	7,090
4 years to 5 years . . . . .	425	487	1,846
Over 5 years . . . . .	413	91	583
<b>Total</b> . . . . .	<b>988,040</b>	<b>1,285,447</b>	<b>2,043,901</b>

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Our trade and bills receivables turnover ratio is affected by various factors, including the different settlement habits of our customers. The credit period we extend to our customers is normally 90 to 120 days. The following table sets forth the number of turnover days for our trade and bills receivables for the years indicated:

	For the Year Ended December 31,		
	2020	2021	2022
Trade and bills receivables turnover days <sup>(1)</sup> . . . . .	115	123	125

*Note:*

(1) We calculate the trade receivables turnover days using the average balance of trade receivables for the year, divided by revenue for the relevant year, multiplied by 365 days for 2020, 2021 and 2022.

Our trade receivables turnover days increased from 115 days in 2020 to 123 days in 2021, and to 125 days in 2022. In line with industry practice, we generally extend a longer settlement period to institutional customers, such as public hospitals, considering their good credit standing. Furthermore, the settlement period of certain customers has been prolonged as a result of the COVID-19 pandemic.

As of February 28, 2023, RMB340.2 million, or 16.6% of our trade and bills receivables outstanding as of December 31, 2022 had been subsequently settled.

The following table sets forth an aging analysis of our trade and bills receivables outstanding on December 31, 2022 as of January 31, 2023 and the ECLs:

	Trade and bills receivables as of December 31, 2022	Amount unsettled as of January 31, 2023	ECLs
	(RMB in thousands, except for percentages)		
	(Unaudited)		
Within 1 year . . . . .	1,802,866	1,675,624	92.9%
1 year to 2 years . . . . .	196,608	189,386	96.3%
Over 2 years . . . . .	47,680	45,389	95.2%
<b>Total</b> . . . . .	<b>2,047,154</b>	<b>1,910,399</b>	<b>93.3%</b>
	<b>71,742</b>	<b>73,939</b>	<b>37,357</b>
	<b>183,038</b>		

We perform impairment analysis and make sufficient provision using a provision matrix to measure ECLs for trade and bills receivables related to each testing item. We have factored in our ECLs through ECL model which includes the historical loss experience of all our customers. The ECL model has been reviewed and validated by independent third-party valuation firm. See “– Critical Accounting Estimates – Provision for Expected Credit Losses of Trade and Bills Receivables” for details of our provision matrix. As of January 31, 2023, the ECL on our unsettled amount of outstanding trade and bills receivables on December 31, 2022 was RMB183.0 million.

Having considered the following reasons, our Directors are of the view that the recoverability of trade receivables is reasonably assured, and the relevant impairment provision is adequate:

- (i) *Effective Internal Risk Management Measures.* We closely monitor the recoverability of our trade and bill receivables. Our sales and business operation teams communicate with our customers on a regular basis to monitor the progress on the recoverability of our trade and bill receivables. In addition, we maintain strict control over outstanding receivables. We have a designated credit control department to review the ages of the receivables regularly, and overdue balances are reviewed by our senior management periodically.

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- (ii) *Lack of Significant Concentration.* Our trade and bills receivables relate to a diverse group of customers, and there is no significant concentration risks relating to such receivables.
- (iii) *Enhanced Collection Efforts.* In 2022, we participated in an increasing number of COVID-19 mass testing organized by local governments, which may have longer payment periods. To navigate the risks of these receivables, we have been, and will continue to put further focus on its collection efforts and will closely monitor these accounts to ensure proper and timely settlement in line with our historical experience.
- (iv) *Reasonable Impairment Policies.* We use a provision matrix to calculate the expected credit losses for trade receivables. The provision rates are based on days past due for groupings of diversified customer segments that have similar loss patterns, for example, by geographical locations, product types, customer rating, and other forms of credit insurance. The provision matrix is initially based on our historical observed default rates, which are subject to updates and changes based on our forward-looking estimates analysis. We have already made sufficient provision using such model to measure the expected credit losses for trade and bills receivables related to each testing.

For risk related to the recoverability of our trade receivables, please see “Risk Factors – Risks Relating to Our Business and Industry – We are subject to credit risks in relation to trade and bill receivables and customers could default on their obligations to pay our fees.”

### Prepayments, Deposits and Other Receivables

Our prepayments, deposits and other receivables primarily consist of: (i) prepayments, (ii) deposits, (iii) value-added tax, and (iv) advance lease payments for short-term leases.

	As of December 31,		
	2020	2021	2022
	(RMB in thousands)		
Deposits .....	13,486	18,597	20,920
Advanced payment for investment .....	–	30,000	18,200
Advance lease payments for short-term leases .....	7,804	4,968	10,610
Prepayments.....	30,335	35,788	54,613
Others .....	4,743	5,913	9,940
Value-added tax recoverable .....	9,037	8,566	14,300
Deferred [REDACTED] .....	[REDACTED]	[REDACTED]	[REDACTED]
	<b>69,389</b>	<b>115,784</b>	<b>141,265</b>
Less:			
Provision of impairment .....	522	423	566
<b>Total:</b> .....	<b>68,867</b>	<b>115,361</b>	<b>140,699</b>

Our prepayments, deposits and other receivables increased by 67.5% from RMB68.9 million as of December 31, 2020 to RMB115.4 million as of December 31, 2021, primarily due to (i) an increase of RMB30.0 million in advanced payments for a proposed acquisition in Henan, and (ii) an increase of deferred [REDACTED] of RMB[REDACTED].

Our prepayments, deposits and other receivables increased by 22.0% from RMB115.4 million as of December 31, 2021 to RMB140.7 million as of December 31, 2022, primarily due to an increase of RMB18.8 million in prepayments for equipments, reagents and consumables used for sales of medical products business.

As of February 28, 2023, RMB54.9 million, or 38.9% of our prepayments, deposits and other receivables outstanding as of December 31, 2022 had been subsequently settled.

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### Trade Payables

Trade payables are amounts due to suppliers, primarily for our purchase of equipment, reagents and consumables. The following table sets forth our trade payables as of the dates indicated:

	As of December 31,		
	2020	2021	2022
	(RMB in thousands)		
Trade payables.....	383,775	510,691	1,062,452

Our trade payables increased by 33.1% from RMB383.8 million as of December 31, 2020 to RMB510.7 million as of December 31, 2021, and further increased by 108.0% to RMB1,062.5 million as of December 31, 2022, primarily in line with our business growth. The trade payables are non-interest-bearing and are normally settled on terms of 60 to 120 days.

The following table sets forth the aging analysis of our trade payables based on invoice date as of the dates indicated:

	As of December 31,		
	2020	2021	2022
	(RMB in thousands)		
Within 1 year.....	377,594	506,444	1,010,329
1 to 2 years .....	3,573	2,126	50,484
Over 2 years .....	2,608	2,121	1,639
<b>Total</b> .....	<b>383,775</b>	<b>510,691</b>	<b>1,062,452</b>

The following table sets forth the number of turnover days for our trade payables for the years indicated:

	For the Year Ended December 31,		
	2020	2021	2022
Trade payables turnover days <sup>(1)</sup> .....	72	84	97

*Note:*

(1) We calculate the trade payables turnover days using the average balance of trade payables for the year, divided by costs of sales for the relevant year, multiplied by 365 days for 2020, 2021 and 2022.

The increase in average trade payables turnover days during the Track Record Period was primarily due to longer credit terms granted by our suppliers due to our stronger bargaining power resulting from increased purchase amounts.

As of February 28, 2023, RMB343.3 million, or 32.3% of our trade payables outstanding as of December 31, 2022 had been subsequently settled. Our Directors confirm that we had no material defaults in our trade and other payables during the Track Record Period and up to the Latest Practicable Date.

## FINANCIAL INFORMATION

### Other Payables and Accruals

The following table sets forth the breakdown of other payables and accruals as of the dates indicated:

	As of December 31,		
	2020	2021	2022
	(RMB in thousands)		
Payroll payables . . . . .	207,625	340,319	438,351
Accruals <sup>(1)</sup> . . . . .	80,717	90,409	172,162
Accrued [REDACTED] . . . . .	[REDACTED]	[REDACTED]	[REDACTED]
Other payables <sup>(2)</sup> . . . . .	31,935	76,992	83,938
Advance payments from non-controlling shareholders . . . . .	450	–	–
Advance payments received for subscription of share options . . . . .	27,918	70,510	97,036
Payables arising from acquisitions <sup>(3)</sup> . . . . .	–	75,536	132,682
Amount due to non-controlling shareholders . . . . .	–	–	49,884
<b>Total</b> . . . . .	<b>365,428</b>	<b>689,136</b>	<b>985,104</b>

*Notes:*

- (1) Accruals mainly include accrued operating expenses, professional services fees and utilities expenses.
- (2) Other payables mainly include payables for purchase of property, plant and equipment, deposits and other tax payables, which were trade in nature, non-interest bearing and repayable on demand.
- (3) Represents the acquisitions of 61% of the equity interests in each of the Shangrao Adicon and Jiangxi Jince in 2021, 51% of the equity interest in Henan Adicon in 2022. For acquisition of Shangrao Adicon and Jiangxi Jince, (i) RMB4.4 million remained in payables as of December 31, 2022, (ii) RMB13.7 million was recognized as contingent consideration as of December 31, 2022, and (iii) RMB57.5 million remained in payables estimated based on the present value of the put option’s strike price over the non-controlling interests, as of December 31, 2021 and 2022. For acquisition of Henan Adicon, as of December 31, 2022 (i) RMB13.3 million was recognized as contingent consideration, and (ii) RMB43.8 million remained in payables estimated based on the present value of the put option’s strike price over the non-controlling interests. For details of the acquisitions, see Note 27 in Appendix I to this Document.

Our other payables and accruals increased from RMB365.4 million as of December 31, 2020 to RMB689.1 million as of December 31, 2021, primarily due to (i) an increase of RMB132.7 million in payroll payables, resulting from the change in our payroll cycle, (ii) payables arising from acquisitions of two subsidiaries of RMB75.5 million, namely for majority interests in Shangrao Adicon and Jiangxi Jince, (iii) an increase of RMB45.1 million in other payables, mainly consisting of payables for the purchases of testing equipment, to supplement the expansion of our business growth, and (iv) an increase of RMB42.6 million for advanced payments received for subscription of share options.

Our other payables and accruals increased from RMB689.1 million as of December 31, 2021 to RMB985.1 million as of December 31, 2022, primarily due to (i) an increase of RMB107.3 million in payables arising from acquisitions of subsidiaries, namely for the majority acquisition of Henan Adicon, (ii) an increase of RMB98.0 million in payroll payables, mainly comprising increases in employee bonus and social insurance, and (iii) an increase of RMB81.8 million in accruals, which mainly consists of professional service fees due to ancillary service providers we engaged primarily for sample collection and transportation, information intake, and on-site management, and (iv) RMB49.9 million for amounts due to non-controlling shareholders at some of our non-wholly owned subsidiaries.

## FINANCIAL INFORMATION

### Contract Liabilities

Our contract liabilities represent the equipment and service payment received from customers in advance. During the Track Record Period, our contract liabilities increased from RMB11.7 million as of December 31, 2020 to RMB20.7 million as of December 31, 2021, and further to RMB21.1 million as of December 31, 2022, primarily due to the increase in advances received from customers which is in line with our business expansion.

As of February 28, 2023, RMB12.2 million, or 57.8% of our contract liabilities outstanding as of December 31, 2022 had been subsequently recognized as revenue.

### LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we have funded our cash requirements principally from cash generated from our operating activities and bank loans. As of December 31, 2020, 2021 and 2022, we had cash and cash equivalents of RMB1,226.8 million, RMB1,109.2 million and RMB1,680.6 million, respectively.

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

	For the Year Ended December 31,		
	2020	2021	2022
	(RMB in thousands)		
Operating cash flows before movements in working capital . . . . .	582,128	707,036	1,111,891
– Changes in working capital . . . . .	(53,169)	(35,697)	(118,081)
– Income tax paid . . . . .	(46,970)	(107,077)	(100,872)
Net cash generated from operating activities . . . . .	481,989	564,262	892,938
Net cash used in investing activities . . . . .	(100,913)	(197,329)	(333,301)
Net cash generated from/(used in) financing activities . . . . .	537,722	(476,193)	3,722
Interest paid and/or tax paid . . . . .	(55,696)	(112,983)	(138,588)
Net increase/(decrease) in cash and cash equivalents . . . . .	918,798	(109,260)	563,359
Cash and cash equivalents at the beginning of the year . . . . .	304,523	1,226,819	1,109,211
Effects of foreign exchange rate . . . . .	3,498	(8,348)	8,055
<b>Cash and cash equivalents at end of the year . . . . .</b>	<b><u>1,226,819</u></b>	<b><u>1,109,211</u></b>	<b><u>1,680,625</u></b>

### Net cash generated from operating activities

For the year ended December 31, 2022, net cash generated from operating activities was RMB892.9 million. This net cash inflow was attributable to (i) our profit before tax of RMB820.8 million, as adjusted by non-cash items, principally comprising depreciation of property and equipment of RMB129.4 million, and impairment losses on financial assets under expected credit losses model of RMB111.7 million, and (ii) changes in operating assets and liabilities, which primarily results from (a) an increase of RMB511.9 million in trade payables, which is primarily in line with our business growth, and (b) an increase of RMB167.0 million in other payables and accruals, partially offset by (i) an increase of RMB649.7 million in trade and bills receivables which is in line with our business growth, and (ii) an increase of RMB115.2 million in inventories.



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## FINANCIAL INFORMATION

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For the year ended December 31, 2021, net cash generated from operating activities was RMB564.3 million. This net cash inflow was attributable to (i) our profit before tax of RMB417.2 million, as adjusted primarily by non-cash items, principally comprising loss on fair value adjustment of RMB61.5 million, depreciation of property and equipment of RMB85.1 million and depreciation of right-of-use assets of RMB51.2 million with respect to the lease arrangements for properties and equipment, and (ii) changes in operating assets and liabilities, which was primarily the result of (a) an increase of RMB183.9 million in other payables and accruals attributable to an increased amount of (x) payroll payables mainly due to the change in our payroll cycle, and (y) other payables, mainly consisting payables for the acquisition of testing equipment and (b) an increase of RMB104.9 million in trade payables in line with our business growth, partially offset by (c) an increase of RMB304.9 million in trade and bills receivables attributable to an increase in our testing volume and number of customers and (d) an increase of RMB15.0 million in prepayments, deposits and other receivables.

For the year ended December 31, 2020, net cash generated from operating activities was RMB482.0 million. This net cash inflow was attributable to (i) our profit before tax of RMB358.2 million, as adjusted by non-cash items, principally comprising depreciation of property and equipment of RMB64.9 million and depreciation of right-of-use assets of RMB48.2 million with respect to the lease arrangements for properties and equipment, and (ii) changes in operating assets and liabilities, which was primarily the result of (a) an increase of RMB160.6 million in other payables and accruals attributable to an increased amount of (x) employee bonus, (y) COVID-19 related service fees, and (z) [REDACTED] and (b) an increase of RMB121.3 million in trade payables in line with our business growth, partially offset by (c) an increase of RMB285.2 million in trade and bills receivables attributable to an increase in our testing volume and number of customers and (d) an increase of RMB22.2 million in inventories primarily due to the continued increase in our reagent and consumables in line with our business growth.

### **Net cash used in investing activities**

For the year ended December 31, 2022, net cash used in investing activities was RMB333.3 million, primarily attributable to (i) purchases of property and equipment of RMB228.3 million, (ii) purchases of other intangible assets of RMB69.1 million in license acquisitions, and (iii) acquisitions of subsidiaries of RMB48.7 million, which is partially offset by RMB8.9 million of interest income.

For the year ended December 31, 2021, net cash used in investing activities was RMB197.3 million, primarily attributable to (i) purchases of property and equipment of RMB155.0 million, (ii) advance payments of RMB30 million for the equity investment in an ICL in Henan, and (iii) acquisition of subsidiaries of RMB21.1 million, partially offset by RMB6.3 million of interest income.

For the year ended December 31, 2020, net cash used in investing activities was RMB100.9 million, primarily attributable to purchases of property and equipment of RMB106.1 million, partially offset by (i) RMB3.8 million of interest income and (ii) proceeds from disposal of property and equipment of RMB3.8 million.

### **Net cash generated from/(used in) financing activities**

For the year ended December 31, 2022, net cash generated from financing activities was RMB3.7 million, primarily attributable to (i) new bank loans of RMB1,098.4 million and (ii) advance payments received for subscription of share options of RMB26.5 million, partially offset by (i) payment of dividends of RMB865.0 million, (ii) repayment of bank loans of RMB155.3 million and (iii) lease payments of RMB62.5 million.

## FINANCIAL INFORMATION

For the year ended December 31, 2021, net cash used in financing activities was RMB476.2 million, primarily attributable to (i) payments of dividends of RMB452.6 million, (ii) repayment of share interest consideration of RMB138.8 million to shareholders, and (iii) repayment of bank loans of RMB120.1 million, partially offset by proceeds from issuance of convertible redeemable preferred shares of RMB129.2 million.

For the year ended December 31, 2020, net cash generated from financing activities was RMB537.7 million, primarily attributable to proceeds from (i) our issuance of convertible redeemable preferred shares with a fair value of RMB443.9 million, and (ii) new bank loans and other borrowings of RMB230.5 million, partially offset by repayment of bank loans and other borrowings of RMB181.0 million.

### WORKING CAPITAL

We intend to finance our working capital with our cash and bank balances, cash generated from our operations, bank and other loans, the [REDACTED] from the [REDACTED] and other funds raised from capital markets from time to time. We will closely monitor the level of our working capital, and diligently review future cash flow requirements and, particularly in view of our strategy to continue enhancing our service capabilities and expanding our service network, adjust our operation and expansion plans, if necessary, to ensure that we maintain sufficient working capital to support our business operations.

During the Track Record Period and up to the Latest Practicable Date, we have financed our operations primarily through our cash and bank balances, cash generated from our operations and bank and other loans. We have obtained two banking facilities in a sum of RMB180.0 million from two licensed commercial banks in 2021 and 2022, of which RMB46.2 million was utilized as of December 31, 2022. As of December 31, 2022, we had RMB1,680.6 million in cash and bank balances. Our Directors are of the view that, taking into account the [REDACTED] of the [REDACTED], our current cash and bank balances, our anticipated cash flows from operations, the available bank facilities, and the special dividend to be paid by us, we have sufficient working capital for our present requirements, that is, for at least 12 months following the date of this Document.

### INDEBTEDNESS

During the Track Record Period, we incurred borrowings to finance our capital expenditure and working capital requirements, which were primarily denominated in RMB. The following table sets forth a breakdown of our outstanding borrowings as of the dates indicated:

	As of December 31,			As of January 31,
	2020	2021	2022	2023
	(RMB in thousands)			(Unaudited)
<b>Current liabilities:</b>				
Interest-bearing bank borrowings <sup>(1)</sup> . . . .	120,178	49,141	112,792	100,165
Lease liabilities . . . . .	28,416	31,653	51,400	32,633
<b>Non-current liabilities:</b>				
Interest-bearing bank borrowings <sup>(1)</sup> . . . .	100,276	90,790	1,023,329	993,418
Lease liabilities . . . . .	129,710	146,297	182,455	180,043
Financial liabilities at FVTPL . . . . .	443,931	621,870	589,179	574,082
<b>Total</b> . . . . .	<b>822,511</b>	<b>939,751</b>	<b>1,959,155</b>	<b>1,880,341</b>

Note:

(1) For details of our interest-bearing bank borrowings, see Note 29 in Appendix I to this Document.

## FINANCIAL INFORMATION

### *Interest-Bearing Bank Borrowings*

The following table sets forth the maturity profile of our interest-bearing bank borrowings, as of the dates indicated:

	As of December 31,		
	2020	2021	2022
	(RMB in thousands)		
Within one year.....	120,178	49,141	112,792
In the second year .....	7,312	11,711	41,321
In the third to fifth years.....	92,964	79,079	982,008
<b>Total .....</b>	<b><u>220,454</u></b>	<b><u>139,931</u></b>	<b><u>1,136,121</u></b>

All the interest-bearing bank loans in 2020, 2021 and 2022 were unsecured loans with effective annual interest rates ranging from 2.85% to 6.76% as of December 31, 2022.

### *Lease liabilities*

As of December 31, 2020, 2021 and 2022, we had total lease liabilities of RMB158.1 million, RMB178.0 million and RMB233.9 million, respectively.

The following table sets forth a maturity analysis of the lease liabilities as of the dates indicated:

	As of December 31,		
	2020	2021	2022
	(RMB in thousands)		
Less than 3 months.....	10,273	12,061	17,113
3 to less than 12 months .....	18,143	19,592	34,287
1 to 3 years .....	60,730	72,806	95,644
Over 3 years .....	68,980	73,491	86,811
<b>Total .....</b>	<b><u>158,126</u></b>	<b><u>177,950</u></b>	<b><u>233,855</u></b>

### **Convertible Redeemable Preferred Shares**

Convertible redeemable preferred shares was designated as whole as financial liabilities carried at FVTPL. As of December 31, 2020, 2021 and 2022, financial liabilities at FVTPL relating to our convertible redeemable preferred shares had fair value of RMB443.9 million, RMB621.9 million and RMB589.2 million respectively. We recognized fair value gain on financial liabilities at FVTPL for 2022, primarily due to the decrease in the fair value of the convertible redeemable preferred shares.

### **CONTINGENT LIABILITIES**

As of December 31, 2020, 2021 and 2022, we were not involved in any material legal, arbitration or administrative proceedings that, if adversely determined, we expect would materially adversely affect our financial position or result of operations.

### **OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS**

As of December 31, 2022, we had not entered into any off-balance sheet transactions.

## FINANCIAL INFORMATION

### CAPITAL EXPENDITURES

Our capital expenditures during the Track Record Period primarily consisted of expenditures on (i) property and equipment, and (ii) other intangible assets, which primarily include patents, softwares and customer relationship.

The following table sets forth our capital expenditures during the Track Record Period:

	For the Year Ended December 31,		
	2020	2021	2022
	(RMB in thousands)		
Purchases of property and equipment .....	106,075	155,005	228,297
Purchase of other intangible assets .....	590	1,115	69,058
<b>Total</b> .....	<b>106,665</b>	<b>156,120</b>	<b>297,355</b>

Purchase of other intangible assets increased from RMB0.6 million in 2020 to RMB1.1 million in 2021, primarily due to an increase of RMB0.5 million in purchase of office softwares. Purchase of other intangible assets further increased from RMB1.1 million in 2021 to RMB69.1 million in 2022, primarily due to an increase of RMB68.3 million in patents, resulting from our cooperation with Guardant Health starting in June 2022, through which we are granted exclusive rights to process Guardant’s proprietary liquid and tissue biopsy assays in China. For details, please see “Business – Our Tests and Service Offerings”.

We intend to fund our planned capital expenditures through a combination of the [REDACTED] from the [REDACTED] as well as cash generated from operations. See “Future Plans and Use of [REDACTED]” for further details. Our current capital expenditure plans for any future period are subject to change, and we may adjust our capital expenditures according to our future cash flows, results of operations and financial condition, our business plans, market conditions and various other factors.

### COMMITMENTS

#### Capital Commitments

Our capital commitments are related to our purchase of property and equipment for the construction, expansion and enhancement of our facilities. We expect to satisfy our capital commitments using cash from operations, [REDACTED] to be received from the [REDACTED] and bank borrowings available to us.

The following table sets forth our capital commitments as of the dates indicated:

	As of December 31,		
	2020	2021	2022
	(RMB in thousands)		
Contracted, but not provided for acquisition of property and equipment .....	13,449	37,549	15,418

### MATERIAL RELATED PARTY TRANSACTIONS

Related party transactions are set out in note 37 to “Appendix I – Accountants’ Report.” Our Directors confirm that these transactions were conducted in the ordinary and usual course of business and on an arm’s length basis and would not distort our results of operations or make our historical results not reflective of our future performance. Our Directors further confirm that save for the lease deposit of approximately RMB4.2 million we paid to AJON Medical Device (Hangzhou) Company Limited, all of our non-trade related party transactions have been settled as of December 31, 2022.

## FINANCIAL INFORMATION

### KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios as of the dates or for the years indicated:

	For the Year Ended December 31,		
	2020	2021	2022
<b>Profitability ratios</b>			
Gross profit margin <sup>(1)</sup> .....	40.7%	42.7%	39.0%
Net profit margin <sup>(2)</sup> .....	10.6%	9.5%	14.1%
Adjusted net profit margin (non-IFRS measure) <sup>(3)</sup> .....	13.4%	13.4%	12.8%
EBITDA margin (non-IFRS measure) <sup>(4)</sup> .....	17.8%	16.7%	22.3%
Adjusted EBITDA margin (non-IFRS measure) <sup>(5)</sup> .....	20.7%	20.7%	21.0%
Return on equity <sup>(6)</sup> .....	35.4%	34.1%	93.5%
Return on assets <sup>(7)</sup> .....	13.8%	11.1%	17.2%
	<b>As of December 31,</b>		
	2020	2021	2022
<b>Liquidity ratios</b>			
Current ratio <sup>(8)</sup> .....	2.31	1.83	1.61
Quick ratio <sup>(9)</sup> .....	2.21	1.75	1.52
<b>Capital adequacy ratios</b>			
Gearing ratio <sup>(10)</sup> .....	0.21	0.16	1.86

*Notes:*

- (1) Gross profit for the year divided by revenue for the same year and multiplied by 100.0%.
- (2) Profit for the year divided by revenue for the same year and multiplied by 100.0%.
- (3) Adjusted net profit margin is a non-IFRS measure. It equals adjusted net profit for a year (non-IFRS measure) divided by revenue for the same year and multiplied by 100.0%. For a reconciliation of adjusted net profit (non-IFRS measure) to net profit, see “– Non-IFRS Measures”.
- (4) EBITDA margin is a non-IFRS measure. It equals EBITDA for the year (non-IFRS measure) divided by revenue for the same year and multiplied by 100.0%. For reconciliation of EBITDA (non-IFRS measure) from profit before tax, see “– Non-IFRS Measures”.
- (5) Adjusted EBITDA margin is a non-IFRS measure. It equals adjusted EBITDA for the year (non-IFRS measure) divided by revenue for the same year and multiplied by 100.0%. For reconciliation of adjusted EBITDA (non-IFRS measure) from profit before tax, see “– Non-IFRS Measures”.
- (6) Net profit for the year divided by average total equity as of the beginning and the end of such year and multiplied by 100.0%.
- (7) Net profit for the year divided by average total assets as of the beginning and the end of such year and multiplied by 100.0%.
- (8) Current assets divided by current liabilities as of the end of the year.
- (9) Current assets less inventories divided by current liabilities as of the end of the year.
- (10) Total borrowings divided by total equity as of the end of the year.

See “– Year-to-Year Comparison of Results of Operations” in this document for a discussion of the factors affecting our gross profit margin and net profit margin during the respective years.

### FINANCIAL RISK DISCLOSURE

We are exposed to a variety of financial risks, including credit risk, liquidity risk, interest rate risk and currency risk. We regularly monitor our exposure to these risks. Risk management is carried out by our senior management.

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## FINANCIAL INFORMATION

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### Credit risk

Credit risk arises from cash and cash equivalents, restricted cash and trade and other receivables. The carrying amount of each class of the above financial assets represents our maximum exposure to credit risk in relation to the corresponding class of financial assets. We have a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

To manage this risk, deposits are mainly placed with state-owned financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no recent history of default in relation to these financial institutions.

Our trade and other receivables primarily comprise of amounts receivable from customers with no recent history of material defaults. Our exposure to credit risk is influenced mainly by the individual characteristics of each customer. We perform credit evaluations that focus on the customer’s past history of making payments and current ability to pay. We do not obtain collateral from customers.

We do not provide any other guarantees which would expose the Group to credit risk.

### Liquidity risk

Our individual operating entities are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the management and directors when the borrowings exceed certain predetermined levels of authority. Our policy is to regularly monitor our liquidity requirements to ensure that we maintain sufficient reserves of cash to meet our liquidity requirements in the short and longer term.

### Interest rate risk

Our interest rate risk arises primarily from variable rates bank loans, which expose us to cash flow interest rate risk.

### Currency risk

We are exposed to currency risk primarily through sales and purchases giving rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate.

## DIVIDENDS

On June 23, 2021, our Board declared a dividend of US\$69.9 million out of our share premium, and which will be paid before the [REDACTED] with our internal resources. On May 18, 2022, we declared a special dividend of RMB865 million, representing 100% of retained earnings as of March 31, 2022 to the shareholders of the Company whose names appear on the register of members of the Company at the time of such dividend declaration. All the dividend declared had been paid by the end of 2022.

We entered into a credit facility agreement of US\$150 million on July 20, 2022, for the purposes of paying the special dividend we declared on May 18, 2022 and other general corporate purposes, so as to avoid uncertainties in the timing to settle the special dividend. The debt facilities were subject to a number of customary covenants. We have fully drawn the credit facilities in July 2022 and will have sufficient cash from existing cash balances and from future cash from operations to meet the repayment terms of this loan.



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## FINANCIAL INFORMATION

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We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will also depend on the availability of dividends received from our subsidiaries. PRC laws require that dividends be paid only out of the profit for the year calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including IFRS. PRC laws also require a foreign-invested enterprise to set aside at least 10% of its after-tax profits, if any, to fund its statutory reserves, which are not available for distribution as cash dividends. Distributions from us and our subsidiaries may also become subject to any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries may enter into in the future. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

The amount of dividend actually distributed to our shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to approval of our shareholders. Our Board has the absolute discretion to recommend any dividend. We currently intend to retain most, if not all, of our available funds and any future earnings after the [REDACTED] to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future.

[REDACTED]

[REDACTED] are estimated to be approximately RMB[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the indicative [REDACTED] range stated in this document, and assuming that the [REDACTED] is not exercised), accounting for approximately of [REDACTED]% of our [REDACTED]. [REDACTED] primarily consist of (i) RMB[REDACTED] of [REDACTED], and (ii) RMB[REDACTED] of [REDACTED] related expenses, including (x) RMB[REDACTED] of fees and expenses of legal advisors and accountants, and (y) RMB[REDACTED] of other fees and expenses. An estimated amount of RMB[REDACTED] for our [REDACTED], accounting for [REDACTED]% of our [REDACTED], is expected to be charged to our consolidated income statements and the remaining amount of RMB[REDACTED] is expected to be recognized directly as a deduction from equity upon the [REDACTED]. [REDACTED] of RMB[REDACTED] were incurred on or before December 31, 2022, of which RMB[REDACTED] was charged to our consolidated income statements, while the remaining amount of RMB[REDACTED] was recorded as a prepayment and will be subsequently charged to equity upon completion of the [REDACTED]. We estimate we will further incur [REDACTED] and other [REDACTED] of RMB[REDACTED] after December 31, 2022, of which RMB[REDACTED] will be charged to our consolidated income statements, and RMB[REDACTED] is expected to be accounted for as a deduction from equity upon the completion of [REDACTED].

The [REDACTED] is responsible for the [REDACTED] of [REDACTED]%, and a discretionary incentive fee of up to [REDACTED]%, of the aggregate [REDACTED] of the [REDACTED] which equals to an aggregate amount of RMB[REDACTED] (calculated based on the mid-point of the indicative price range for the [REDACTED]). Such [REDACTED] and incentive fee will be solely borne by the [REDACTED] and are not included in the [REDACTED] of the Group.

### NON-RECURRING LONG-TERM CASH INCENTIVE PLAN

In October 2018, we granted a non-recurring long-term cash incentive plan, which is fully cash-based, to our employees in connection with the investments of Pearl Group Limited in our Group (details of the investments are set out in “History, Reorganization and Corporate Structure – Round A [REDACTED] Investments”) for long-term retention purposes. The cost of the cash incentive plan will be recognized as expenses once incurred. The total incentives of RMB9.9 million were fully paid from 2020 to 2022 in cash to qualified management and employees in three installments in 2020, 2021 and 2022, respectively, resulting in RMB9.9 million, nil and nil debit in operating expenses and credit in cash in the Group’s financial statements for the respective years.



## FINANCIAL INFORMATION

### UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out below to illustrate the effect of the [REDACTED] on the consolidated net tangible assets attributable to the equity holders of the Company as of December 31, 2022 as if the [REDACTED] had taken place on that date.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not provide a true picture of the consolidated net tangible assets attributable to owners of the Company had the [REDACTED] been completed as of December 31, 2022 or at any future date.

It is prepared based on the consolidated net tangible assets of the Group attributable to the owners of the Company as of December 31, 2022 as set out in the Accountants’ Report in Appendix I to the Document, and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets does not form part of the Accountants’ Report as set out in Appendix I to the Document.

	Consolidated net tangible assets attributable to owners of the Company as of December 31, 2022	Estimated impact to the consolidated net tangible assets upon conversion of Preferred Shares	Estimated [REDACTED] from the [REDACTED]	Unaudited Pro forma adjusted consolidated net tangible assets attributable to owners of the Company as of December 31, 2022	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share as of December 31, 2022	
	RMB’000	RMB’000	RMB’000	RMB’000	RMB	HK\$
	(Note 1)	(Note 2)	(Note 3)		(Note 4)	(Note 5)
Based on an [REDACTED] of HK\$[REDACTED] per [REDACTED] . . . . .	287,313	589,179	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK\$[REDACTED] per [REDACTED] . . . . .	287,313	589,179	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK\$[REDACTED] per [REDACTED] . . . . .	287,313	589,179	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

*Notes:*

- (1) The consolidated net tangible assets of the Group attributable to owners of the Company as of December 31, 2022 was equal to the audited net assets attributable to owners of the Company as of December 31, 2022 of RMB510,824,000 after deducting of other intangible assets of RMB143,709,000 and goodwill of RMB79,802,000 as of December 31, 2022 set out in the Accountants’ Report in Appendix I to this Document.
- (2) The Preferred Shares would have been converted into ordinary shares upon completion of [REDACTED]. The conversion of Preferred Shares would have been reclassified such preferred shares amounting to RMB589,179,000 from liabilities to equity and accordingly increased the unaudited pro forma adjusted consolidated net tangible assets of the Group as of December 31, 2022 by RMB589,179,000.
- (3) The estimated [REDACTED] from the [REDACTED] are based on an estimated [REDACTED] of HK\$[REDACTED], HK\$[REDACTED] and HK\$[REDACTED] per share, after deduction of the [REDACTED] and other related expenses payable by the Company and do not take into account any Shares which may be issued upon the exercise of the [REDACTED].
- (4) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share is arrived at after adjustments referred in note 2 above and on the basis of [REDACTED] Shares are in issue, assuming that the Share Consolidation and the [REDACTED] has been completed on December 31, 2022 but does not take into account any Shares which may be sold pursuant to the exercise of the [REDACTED].
- (5) For the purpose of this unaudited pro forma statement of adjusted net tangible assets attributable to owners of the Company, the balances stated in RMB are converted into HK\$ at the rate of RMB1.00 to HK\$1.1381.
- (6) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to December 31, 2022.

## **FINANCIAL INFORMATION**

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### **NO MATERIAL ADVERSE CHANGE**

Our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position since December 31, 2022 (being the date on which the latest audited consolidated financial information of our Group was prepared) and there is no event since December 31, 2022 which would materially affect the information shown in our consolidated financial statements included in the Accountant’s Report in Appendix I to this Document.

### **DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES**

Our Directors confirm that, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.