## OVERVIEW

We are one of the top three independent clinical laboratory, or 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. During the Track Record Period, 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.

We believe that we are well-positioned to benefit from the growing demand for testing services in China. Driven by a series of favorable government policies and industry tailwinds, the ICL market size in China grew rapidly at a CAGR of 10.9% from RMB14.7 billion in 2017 to RMB22.3 billion in 2021, and is expected to further grow at a CAGR of 18.2% to RMB51.3 billion in 2026, according to Frost & Sullivan. In addition, China's ICL market is still at a nascent stage compared to that of other developed countries. For example, China's ICL penetration rate, measured by the ICL testing market size as a percentage of the total clinical testing market size, in 2021 was approximately 6%, significantly less than 60% for Japan, 44% for Germany and 35% for the United States. China also lags behind in terms of expenditures on clinical testing per patient, with this figure one-sixth the size of that of the United States in 2021. As a result, there remains significant room for China's ICL market to further develop and continue to grow.

In response to the continuing growth of healthcare expenditures, healthcare reforms in China have emphasized the implementation of cost-control measures, where ICLs have played an increasingly important role. As budgetary pressure intensifies, hospitals are increasingly incentivized to outsource clinical tests to qualified ICL service providers like us to reduce costs. In addition, as part of overall healthcare reforms, implementation of hierarchical diagnosis and treatment systems have propelled patient flow shifting from Class III hospitals in major cities towards Class II and Class I hospitals and community health centers in lower tiered cities. With increased testing volume and limited testing capability, these hospitals are more inclined to use ICLs for assured quality, comprehensive test menus, competitive pricing, and timely reporting, while improving their own ability to diagnose accurately. The Chinese government has vigorously encouraged collaboration between hospitals and ICLs and streamlined the approval process for chain ICLs, which has and will continue to accelerate the growth of the ICL market. Furthermore, increasing awareness for preventive treatment and emergence of new therapies in recent years have spurred the demand for specialized testing. It is costly for hospital-based laboratories to introduce such new tests, as they often lack sufficient patient volume and advanced testing technologies. As a result, demand for cost-competitive and high-value testing services, which ICLs are capable of providing has been growing.

At the same time, the ICL industry in China is characterized by its significant entry barriers. The complex regulatory framework, high standards for advanced testing technologies and logistics capabilities, as well as the demand for experienced professionals, largely limit the growth of new entrants. In particular, the ICL market in China is heavily regulated and it is difficult and time-consuming for new market players to obtain approval for licenses and certificates to open laboratories. As such, hospitals often prefer incumbent and established ICLs that they are familiar with, and new entrants are often faced with unfavorable terms from hospitals, or if they are able to get business from such hospitals at all. In addition, successful ICLs generally have a large network of laboratories, which require large amounts of capital investment and take years to decades to establish. Therefore, large-scale chain ICLs with comprehensive test offerings and stronger technical capabilities usually enjoy economies of scale and higher cost efficiency, and are better positioned to further increase their market shares.

As a market leader in providing ICL services in China, we believe that we are well-positioned to benefit from the aforementioned barriers to entry and capture a greater share of the fast-growing market. The success of our operations is underpinned by our industry-leading laboratories, robust logistics capabilities, dedicated sales force, advanced IT infrastructure and strong R&D capabilities, which we believe constitute a combined set of formidable entry barriers over other market participants.

- *Industry-leading laboratories*. Our comprehensive test offerings are supported by state-of-the-art laboratories equipped with advanced testing technologies, ranging from chemical analyzers, hematology analyzers, histopathology, flow cytometry, molecular pathology, mass spectrometry, next-generation sequencing (NGS), and digital polymerase chain reaction (dPCR). Our advanced testing technologies also allow us to efficiently expand into various specialty areas and rapidly develop innovative testing offerings to cater the evolving clinical needs.
- *Robust logistics capabilities.* We operate a dedicated cold-chain logistics network covering more than 19,000 customers across 30 provinces and municipalities and over 1,600 cities and counties in China by the end of 2022. We deployed a total of more than 750 vehicles and over 1,300 personnel providing sample logistics services, as of the same date. Our logistics capabilities ensure speedy transportation of our samples and timely reporting of testing results. During the Track Record Period and up to the Latest Practicable Date, we were able to achieve daily same-day delivery of up to 540,000 samples.
- *Dedicated sales force*. Our sales and marketing activities further fuel our business growth. As of December 31, 2022, we had a highly trained and educated sales and marketing team of over 1,500 personnel nationwide, over 200 of whom specializes in promoting esoteric testing services. Our sales and marketing team regularly interacts with medical institutions, physicians and key opinion leaders to promote our services, which enables us to align our R&D and marketing priorities with market demand.
- *Advanced IT infrastructure.* Our IT infrastructure is crucial to ensure swift processing and secured storage of data, as well as effective customer management across our national laboratory network. Our proprietary and industry-leading, Laboratory Information System, or LIS, helps us attain tremendous operational efficiencies and enables us to achieve consistent, structured, and standardized operating results and superior customer service. In addition, we also developed our proprietary logistics IT system, AiLogistics (艾物流), which digitalizes and automates the sample requisition process through mobile digital technologies and AI recognition technologies.

- *Strong R&D capabilities.* We had a dedicated R&D team led by industry veterans who have over 10 years of industry experience and expertise. Our R&D team consists of Ph.D. and master's degree holders specializing in molecular biology, genetics and bio-engineering, toxicology, pathology and other related areas, and are devoted to developing new testing methodologies and improving existing testing processes to enhance cost efficiency. We also proactively collaborate with reputable medical research institutions, universities and hospitals to develop new testing methods and technologies. Our strong R&D capabilities were evidenced by our fast expanding testing menu, which grew from 1,800 test items in 2018 to over 4,000 test items in 2022. In particular, our esoteric test grew from over 650 in 2018 to over 2,300 in 2022.

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 32.6% from RMB567.6 million in 2020 to RMB998.7 million in 2022. Our adjusted EBITDA margin (non-IFRS measure) decreased from 20.7% in 2020 and 2021 to 20.5% in 2022. Our adjusted net profit (non-IFRS measure) grew at a CAGR of 27.8% from RMB367.0 million in 2020 to RMB599.9 million in 2022. Our adjusted net profit margin (non-IFRS measure) decreased from 13.4% in 2020 and 2021 to 12.3% in 2022. See "Financial Information – Non-IFRS Measures".

## OUR STRENGTHS

We believe that the following strengths have contributed to our success and differentiated us from our competitors:

### A market leader in the rapidly growing ICL industry

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. We offer comprehensive and best-in-class testing services primarily to hospitals and health check centers through an integrated network of self-operated laboratories across China.

Driven by the growth of the outsourcing demand from hospitals under the pressure of cost control, the promotion of hierarchical medical system and other favorable policies, the acceleration of population aging as well as people's ever growing awareness of health, China's ICL market grew at a CAGR of 10.9% from RMB14.7 billion in 2017 to RMB22.3 billion in 2021, and is expected to further grow at a CAGR of 18.2% to RMB51.3 billion by 2026. We believe that we are well-positioned to capture this growth in China. We have built an extensive service network of 32 self-operated laboratories covering over 30 provinces and municipalities across China. 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 global standard. We also maintained an industry-leading comprehensive test menu with over 4,000 test items as of December 31, 2022, including over 1,700 routine tests and over 2,300 esoteric tests, allowing us to provide testing services to over 19,000 customers by the end of 2022, ranging from medical institutions, health check centers, to biopharmaceutical companies and CROs.

We pride ourselves in industry-leading operational and R&D capabilities. Leveraging our "headquarter – laboratory" two-tier internal management, economies of scale and effective cost control measures, we are able to provide testing services with competitive pricing, which helps us establish a strong market presence in health check center in China. Moreover, our relentless R&D efforts successfully expanded our test menu, in particular esoteric tests, and quickly made us a top-of-mind choice among world's leading CROs and biopharmaceutical companies for collaboration in China.

**Comprehensive, high-quality and advanced test portfolio underpinned by our strong R&D and quality control capabilities**

Our testing portfolio is at the core of our services. We offer a competitive and comprehensive catalog of over 4,000 medical diagnostic tests, comprising over 1,700 routine tests and over 2,300 esoteric tests, as of December 31, 2022, spanning a variety of specialty groups, including among others, clinical immunologic testing, clinical chemistry testing, clinical molecular biology testing, and pathology testing. Our testing portfolio allows us to offer a broad spectrum of testing options that facilitate physicians' diagnostic and treatment decisions, and we can customize our test menu to fulfill the specific testing demands from medical institutions, pharmaceutical companies, CROs and other customers.

Our comprehensive testing offerings are supported by state-of-the-art laboratories equipped with advanced testing technologies, ranging from chemical analyzers, hematology analyzers, histopathology, flow cytometry, molecular pathology, mass spectrometry, next-generation sequencing (NGS), and digital polymerase chain reaction (dPCR). Our advanced testing technologies also allow us to efficiently expand into various specialty areas and rapidly develop innovative testing offerings to cater the evolving clinical needs.

Strong R&D capabilities are the backbone of our high-quality test offerings. We had a dedicated R&D team led by industry veterans who have over 10 years of industry experience and expertise. Our R&D team consists of Ph.D. and master's degree holders specializing in molecular biology, genetics and bio-engineering, toxicology, pathology and other related areas, and are devoted to developing new testing methodologies and improving the existing testing processes. Our relentless R&D efforts are further evidenced by our intellectual property assets. As of the Latest Practicable Date, we owned 214 registered patents, covering our major business focuses, namely infectious diseases and blood diseases, as well as fields with large and unaddressed clinical demand such as personalized medication, single-gene genetic diseases and solid tumors. We also proactively collaborate with reputable medical research institutions, universities and hospitals to develop new testing methods and technologies to further strengthen our testing capabilities.

Furthermore, quality control underpins our abilities to constantly offer high-quality testing services to earn trust and loyalty from our customers. As of December 31, 2022, 18 of our laboratories were accredited by ISO15189, which enabled us to provide customers with the assurance that comes with rigorous global standard. We have established a "headquarters – laboratory" two-level quality assurance system, with all facets of our services subject to stringent quality control standards and measures, including laboratory operations, accuracy and reproducibility of tests, as well as customer service and satisfaction. During the Track Record Period, we received over 4,100 external quality assurance, or EQA, certificates and participated in a total number of over 40,000 EQA programs, covering clinical chemistry, immunology, molecular biology, and pathology areas, enjoying a passing rate of 98.5% on average. We believe our quality assurance has positioned us strongly to broaden our customer base and capture an increasing market share.

**Industry-leading ICL operational capabilities**

As an industry leading ICL service provider with a national footprint, our leadership position is backed by our excellent operational capabilities. To support our extensive service coverage, we maintain a robust and nimble logistics network via ground, rail, and air, covering more than 19,000 customers across 30 provinces and municipalities and over 1,600 cities and counties in China by the end of 2022. We deployed a total of more than 760 vehicles and 1,300 personnel providing sample logistics services, as of December 31, 2022. Our logistics capacities ensure speedy transportation of samples and timely reporting of testing results. During the Track Record Period and up to the Latest Practicable Date, we were able to achieve daily same-day delivery of up to 540,000 samples.

Moreover, each sample in transit is kept in our proprietary incubators equipped with thermal control equipment and GPS tracking devices to preserve sample quality and prevent contamination. Furthermore, we believe our logistics capabilities also enable cross-coverage of our laboratories and rapid expansion of our services to untapped geographic markets.

In addition, our effective sales and marketing activities further fueled our business growth. As of December 31, 2022, we had a highly trained and educated in-house sales and marketing team of over 1,500 personnel nationwide. Our sales and marketing team actively interact with medical institutions, physicians and key opinion leaders on a regular basis to introduce and promote our services. In particular, as we believe the market requires further education on esoteric testing, we assembled a special sales team of over 200 industry veteran who have extensive knowledge in the relevant specialty area to promote our esoteric tests. We provide comprehensive trainings to our sales and marketing team regularly to keep them abreast with the latest industry development and better align our marketing priorities with market demand. Moreover, we place strong emphasis on academic marketing to strengthen our brand awareness among medical professionals. We regularly organize, sponsor and participate in industry-leading academic conferences, seminars, and symposia which include large-scale international and national conferences, as well as smaller events tailored for specific cities and hospital departments. In 2022, we hosted a total of over 110 conferences across the country, successfully enhancing our presence in the market.

Furthermore, our IT infrastructure is crucial to ensure timely preparation and delivery of accurate and informative clinical testing reports to our customers, as well as effective customer management across the national network of our laboratories. Our proprietary and industry-leading Laboratory Information System, or LIS, is responsible for tremendous operational efficiencies, enabling us to achieve consistent, structured, and standardized operating results and superior customer service.

Finally, we have carried out a series of operational initiatives in monitoring and measuring our laboratory productivity, and improve our overall operational efficiencies, which primarily focus on employee, and reagents and consumables efficiency. During the Track Record Period, 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. We have also adopted a lean management scheme to control the usage of reagents and consumables across our laboratories, by closely and precisely monitoring the level of wastage for each reagent for different tests performed.

**Strong growth trajectory fueled by expanding service offerings and superior execution evidenced by robust financial performance**

We had a strong growth trajectory since 2018 following a series of changes implemented by our Controlling Shareholders.

*Network Expansion*. The number of our laboratories grew from 19 as of December 31, 2018 to 32 as of December 31, 2022, allowing us to serve from over 11,000 customers in 2018 to over 19,000 customers in 2022, ranging from medical institutions and health check centers to biopharmaceutical companies and CROs across 30 provinces and municipalities. Such impressive expansion record is supported by the replicable "headquarters – laboratory" two-level management scheme developed by us, which covers major aspects of our business operations, including quality assurance, sales and marketing and supply chain management. Under this scheme, we plan strategies and initiatives centrally and monitor qualities of local executions effectively. Our headquarters establishes unified standardized operating procedures and policies which can be carried through and implemented across our laboratories nationwide, which allows us to open new laboratories and integrate acquired ones cost-effectively and efficiently. As a result, we have rapidly expanded our footprint across the country.

*Expanding Service Offerings*. Our test menu expanded significantly from approximately 1,800 test items in 2018 to over 4,000 test items in 2022. In particular, our esoteric test grew from over 650 in 2018 to over 2,300 in 2022. As an illustration of our continuing quest to expand our service offerings, we entered into partnership agreements with world's leading and internationally acclaimed companies in life science industry. For example, in June 2022, we entered into a strategic partnership agreement with Guardant Health (Nasdaq: GH), a leading precision oncology company, pursuant to which, we are granted the exclusive rights to perform Guardant's industry-leading comprehensive genomic profiling (CGP) tests, including the first blood-only test that detects residual disease and monitors for cancer recurrence, to researchers in China to help them identify patients whose cancer has the right molecular profile for their clinical programs, streamlining patient screening and clinical trial enrollment. Moreover, we are the exclusive licensee to process Guardant's proprietary liquid and tissue biopsy assays in China. In addition, in April 2021, we entered into a master lab agreement with a leading global CRO providing comprehensive, integrated drug development, laboratory and lifecycle management services, to provide testing services for its designated clinical research study or projects. Recognition by world's leading CROs and biopharmaceutical companies reinforces our market leadership, and gives us competitive edge in the industry.

*Broader Customer Range*. Our comprehensive test menu and strong testing expertise allowed us to deliver value proposition to a broader range of customers. After four years of rapid development, we significantly expanded our services to all types of medical institutions, health check centers, biopharmaceutical companies and CROs. In April 2019, we started collaboration with Meinian, a leading health examination and consulting service provider and provided testing services for its health check centers across the country, and soon established a strong presence in the health check market in China. By the end of 2022, we served a total of over 930 health check centers in China. Moreover, leveraging our strong testing capabilities, we also offered testing services to globally and domestically reputable biopharmaceutical companies and CROs, assisting them in streamlining their drug development process and accelerating clinical trials.

**Top-tier and experienced management team solidified by shareholder support**

We have assembled a senior management team with in-depth industry insights and extensive experience, which was further bolstered by the addition of Pearl Group Limited as our Controlling Shareholder. Our management team has deep industry experience spanning global and Chinese healthcare companies and a track record of success. In particular, our chairwoman of the Board, Ms. YANG Ling has over 15 years of experience in private equity with a focus on the healthcare industry. Our executive Director and chief executive officer, Mr. GAO Song, has over 10 years of experience in healthcare industry and held various positions at GlaxoSmithKline (China) Investment Co., Ltd. (葛蘭素史克中國投資有限公司) from September 1997 to April 2019, a subsidiary of GlaxoSmithKline PLC (LSE: GSK; NYSE: GSK). Our chief financial officer, Mr. WANG Lawrence Allen, has worked in various capacities in private equity and investment banking, and enjoys an extensive experience in business management and capital markets, while also holding a master degree in business administration and a doctorate degree in medicine. Our head of laboratory, Mr. PAN Chao, has approximately 40 years of experience in medical research and diagnosis, and served as a laboratory director of a Class III hospital prior to joining us. In addition, we also have strong support from our shareholders. Our Controlling Shareholders have provided us with substantial strategic insights and helped us to strengthen management capabilities, operational efficiency, business development capabilities, and corporate governance.

## OUR STRATEGIES

To achieve our mission and vision, we will pursue the following strategies:

### Further strengthen our testing capabilities and portfolio to drive future growth

We plan to further strengthen our routine testing capabilities through further extending our routine test portfolios and enhancing the cost efficiency through the introduction of new testing technologies.

In addition, we believe that our comprehensive esoteric testing services have been crucial to maintaining our leading position in the ICL market. We plan to further improve our in-house R&D capabilities, prioritizing the development and deployment of cutting-edge esoteric testing technologies with a focus on OB-GYN, infertility, neonatal, hematology, solid tumors, and infectious diseases areas with strong market growth potential and in which we have a competitive advantage. We also intend to continuously explore opportunities in novel types of esoteric tests leveraging our relationships with hospitals in the disciplines set forth above. Our collaboration with hospitals will enable us to validate the effectiveness and utility of new types of esoteric tests in a clinical setting and provide us access to clinically well-characterized and highly annotated data. Furthermore, we plan to further enhance and tailor our esoteric testing module offerings that group related testing items together to make the diagnosis process more convenient and efficient. We also plan to purchase new testing equipment with advanced technologies to enhance our testing capabilities and expand our testing portfolio.

Moreover, we plan to extend and strengthen our dedicated esoteric testing sales force to serve our growing customer base. Additionally, we intend to further solidify and broaden our network of key opinion leaders, physicians, hospitals, medical associations, universities, and research centers in the key regions and target fields by, for example, supporting academic forums and seminars, as well as establishing joint research initiatives.

### Enhance the breadth and depth of our ICL network by strategically penetrating untapped markets

We intend to further expand our service coverage by opening new laboratories to serve Class III hospitals facing immense cost-cutting pressures that are willing to outsource clinical testing services. We also intend to build more laboratories to capture the growing demand for quality and price-competitive testing services from Class I and Class II hospitals in lower tier cities and rural areas that have received patient flow from Class III hospitals resulting from implementation of tiered diagnosis and treatment schemes in China.

### Continue to develop new testing methods and apply innovative technologies

We intend to enhance our operating efficiency and offer a broader spectrum of testing items through introducing advanced testing technologies and new testing methods. We will continue to capture the latest technological developments in the market and transform pioneering technologies into diagnostic applications. We plan to further invest in the research and development in the areas such as mass spectrometry, metagenomics and technologies for early cancer screening.

In addition, we plan to fully capitalize on our strong R&D capabilities and leverage our industry resources and collaborations with in vitro diagnostic, or IVD, companies on reagents to advance diagnostic equipment and enrich testing modality. We also plan to invest in our proprietary artificial intelligence technology to further enhance our test capabilities, including optimizing the data input process, delivering more precise pathological analysis for more accurate testing results and increasing the capacity and bandwidth of pathology tests.

**Further optimize IT infrastructure as well as automate our laboratory processes and logistics**

We intend to further optimize and increase the level of automation in our laboratory processes. We will continue to closely monitor the efficiency of our laboratories through various benchmarks and assessments. We will adopt advanced automation systems and implement optimized standards for processes in laboratories to further enhance the cost-efficiency of our operation. We also intend to further strengthen our quality control, optimize the performance and accuracy of our testing services by increasing our investment in automation, robotics, and connected equipment.

To sustain corporate outperformance, we intend to further advance our IT infrastructure by building our cloud-based business information system and our proprietary laboratory internet network for faster and more secured transmission of laboratory data. We also plan to upgrade our information security system to better safeguard the privacy of patient data. Furthermore, we intend to invest in data-mining technologies and data infrastructure to help us discover new information from our existing database of anonymized test results to provide better diagnostic insight to our customers.

We will further expand and upgrade our dedicated logistics network by providing broader coverage in lower tier cities to support opening of new laboratories and building a transportation management system to monitor logistics activities in real time.

**Selectively pursue strategic investment and alliances, and other emerging growth opportunities**

We intend to expand strategic collaboration and actively seek opportunities for strategic investment and alliances. For example, we intend to explore opportunities to acquire or collaborate with: (i) laboratories with new testing technologies, (ii) regional laboratories with strong performance and market share in their respective markets and specialties, and (iii) international laboratories and companies with new testing technologies seeking to enter the China market. We believe that our track record in implementing new technologies, strong logistics and sales and marketing capabilities and national footprint, will enable us to successfully integrate or collaborate with these companies.

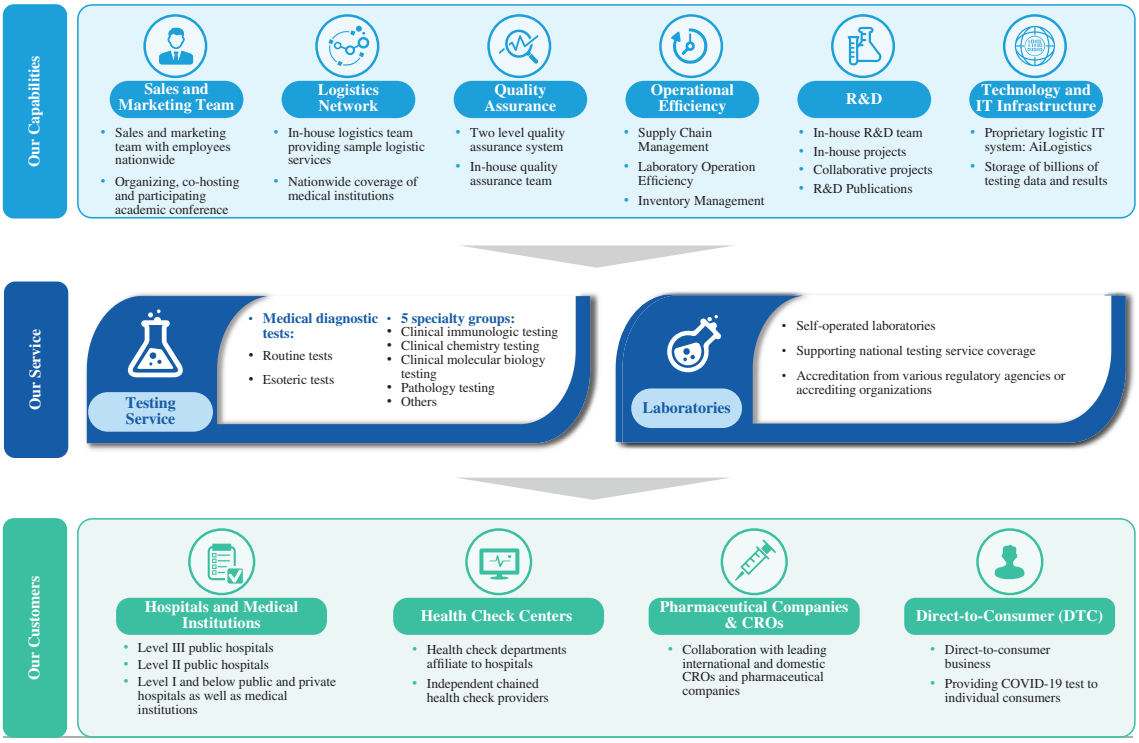
We intend to further explore emerging opportunities in the DTC business. As the COVID-19 pandemic has increased users' awareness and knowledge of medical services, especially clinical testing services, we have launched and intend to continue to develop DTC offerings and reach consumers with testing and other health-related needs through internet-based channels, such as working with e-commerce platforms to provide health check packages.

In addition, we plan to capture the opportunities in clinical studies driven by strong demand from biopharmaceutical companies and CROs in China. We aim to become a central laboratory in China for global clinical trials conducted by international and domestic biopharmaceutical companies and CROs. We currently have a facility in Shanghai accredited by the College of American Pathologists ("CAP") as the primary laboratory servicing our biopharmaceutical and CRO clients. We believe that our current facilities and testing services will be able to cater to the growing testing demand from this sector and will continue to target it for future growth. 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 disease monitoring diagnostic markets in both a central laboratory capacity and clinical diagnostic capacity. We believe that this approach allows us to rapidly expand our test and service offerings and differentiates us from other ICLs. As of December 31, 2022, we had a total of 81 CROs and biopharmaceutical company customers. Testing revenues from biopharmaceutical companies and CROs were RMB18.6 million, RMB19.5 million and RMB27.5 million in 2020, 2021 and 2022, respectively.

## OUR BUSINESS MODEL

We are one of the top three independent clinical laboratory, or ICL, service providers in China in terms of total revenues during the Track Record Period, according to Frost & Sullivan. We offer comprehensive and high-quality testing services primarily to medical institutions through an integrated network of 32 self-operated laboratories across China. As of December 31, 2022, 18 of our laboratories were accredited by ISO15189, which enabled us to provide customers with the assurance that comes with this rigorous global standard. Supported by advanced technical capabilities, nimble and efficient logistics and a sophisticated information technology system, we are able to produce and deliver accurate testing results to aid physicians in diagnosis and individuals in disease prevention.

As an industry leading ICL service provider, we play a crucial role in the healthcare ecosystem, and the following diagram illustrates how we interact with industry participants and bring value to each stakeholder:




## OUR ICL BUSINESS

Our primary business is providing ICL services. Revenues generated from our ICL business were RMB2,513.2 million, RMB3,144.8 million and RMB4,400.7 million in 2020, 2021 and 2022 respectively, representing 91.7%, 93.1% and 90.5% of our total revenues in the same years, respectively.

The following describes our typical clinical laboratory process, in case of a medical institution customer:

- We enter into cooperation agreements with medical institutions with each agreement specifies testing items, prices and pricing formulas.
- When a patient visits a physician at the medical institution, the physician may order laboratory tests to inform a diagnosis or monitor treatment. The medical institution will then collect samples such, as blood, urine, stool or tissue biopsies, from the patient, and assign a unique barcode for each sample for easy tracking.

- Once the patient's samples have been collected by the medical institution, our expertly trained sample logistics staff will obtain samples from the medical institution on a daily basis and record the sample information into our information center.
- The samples are then transported to our laboratory through our cold chain logistics.
- When samples arrive at our laboratory, we will check each sample status and its respective patient information to ensure accuracy. All patient information is treated in the strictest confidence.
- Each sample, depending upon the specific test requested by the medical institution, is generally examined by our experienced technicians using sophisticated instruments and advanced technologies. Each collected sample may undergo multiple tests.
- Test results are either automatically aggregated into reports, or interpreted by our specialists who provide diagnostic comments to assist referring physicians.
- Test results are generally delivered within 24 hours electronically to the medical institutions, or are delivered by our logistics personnel.

We have developed a highly scalable business model with excellent quality standards. We operate a network of 32 self-operated laboratories as of December 31, 2022, strategically located across China, providing testing services covering 30 provinces and municipalities. The following map* presents the network of our laboratories:


* This map is for illustration purposes only.

*Note:* Primary coverage refers to areas where we have our laboratories. Secondary coverage refers to areas where we do not have our laboratories but we can provide testing services through our logistics network.

The following table sets forth details relating to our self-operated laboratories as of December 31, 2022.

| No. | Name | Location | Date of Establishment[1] | Area (sqm) | Time of Initial ISO15189 Accreditation | Utilization Rate[3] |
|---|---|---|---|---|---|---|
| 1. | Hangzhou Adicon | Zhejiang | January 16, 2004 | 14,780 | May 2010 | 93.95% |
| 2. | Hefei Adicon | Anhui | June 5, 2006 | 3,400 | January 2011 | 89.04% |
| 3. | Shanghai Adicon | Shanghai | August 2, 2006 | 4,850 | July 2014 | 87.53% |
| 4. | Jinan Adicon | Shandong | October 19, 2006 | 5,285 | May 2017 | 93.78% |
| 5. | Beijing Adicon | Beijing | December 7, 2007 | 3,497 | November 2011 | 89.84% |
| 6. | Nanchang Adicon | Jiangxi | September 10, 2008 | 4,265 | December 2014 | 88.43% |
| 7. | Fuzhou Adicon | Fujian | February 6, 2009 | 4,599 | October 2015 | 91.30% |
| 8. | Jilin Adicon | Jilin | April 23, 2009 | 4,031 | May 2014 | 90.33% |
| 9. | Wuhan Adicon | Hubei | November 24, 2009 | 4,972 | June 2015 | 87.39% |
| 10. | Nanjing Adicon | Jiangsu | December 4, 2009 | 4,986 | August 2014 | 93.45% |
| 11. | Changsha Adicon | Hunan | April 19, 2010 | 2,738 | February 2017 | 88.36% |
| 12. | Chengdu Adicon | Sichuan | June 11, 2010 | 2,668 | May 2015 | 87.40% |
| 13. | Shenyang Adicon | Liaoning | March 16, 2011 | 2,900 | March 2015 | 91.08% |
| 14. | Zhengzhou Adicon | Henan | August 8, 2012 | 3,649 | December 2019 | 88.38% |
| 15. | Guangzhou Adicon | Guangdong | August 21, 2013 | 4,000 | February 2020 | 91.56% |
| 16. | Tianjin Adicon | Tianjin | June 3, 2014 | 5,625 | February 2018 | 91.50% |
| 17. | Yunnan Adicon | Yunnan | February 2, 2015 | 3,153 | December 2019 | 89.44% |
| 18. | Xi'an Adicon | Shaanxi | May 23, 2016 | 2,292 | August 2022 | 84.58% |
| 19. | Sanming Adicon | Fujian | May 30, 2016 | 2,421 | –[2] | 74.48% |
| 20. | Chongqing Adicon | Chongqing | September 21, 2016 | 2,621 | –[2] | 86.78% |
| 21. | Nanning Adicon | Guangxi | November 23, 2017 | 3,000 | –[2] | 75.76% |
| 22. | Qingdao Adicon | Shandong | May 13, 2019 | 1,906 | –[2] | 89.83% |
| 23. | Shenzhen Adicon | Guangdong | May 13, 2019 | 2,256 | –[2] | 94.27% |
| 24. | Quzhou Adicon | Zhejiang | January 6, 2020 | 1,982 | –[2] | 87.69% |
| 25. | Shangrao Adicon | Jiangxi | December 7, 2020 | 2,000 | –[2] | 73.06% |
| 26. | Xiamen Adicon | Fujian | September 25, 2020 | 3,178 | –[2] | 71.60% |
| 27. | Suzhou Adicon | Jiangsu | August 3, 2021 | 5,298 | –[2] | 87.33% |
| 28. | Henan Adicon | Henan | October 16, 2019 | 4,000 | –[2] | 73.79% |
| 29. | Guizhou Adicon | Guizhou | July 16, 2021 | 3,421 | –[2] | 64.13% |
| 30. | Wenzhou Adicon | Zhejiang | November 29, 2021 | 3,420 | –[2] | 50.58% |
| 31. | Heilongjiang Adicon | Heilongjiang | January 13, 2020 | 4,066 | –[2] | 52.35% |
| 32. | Xinyang Adicon | Henan | May 13, 2022 | 2,544 | –[2] | 17.54% |

*Notes:*

(1) Date of establishment refers to the date that such laboratory received its business license.

(2) Laboratories for which we plan to apply for ISO15189 accreditation.

(3) Utilization rate equals actual testing volume ÷ (number of equipment × theoretical testing volume per equipment per hour × actual testing duration per day × days of equipment in operation) in 2022.

## OUR LABORATORIES

### Self-operated Laboratories

We set up our central laboratories in the capital city or the second largest city of a province to easily collect samples from medical institutions in that province or nearby provinces. We believe that establishing a laboratory involves a massive amount of work and requires a structured approach to ensure its success. We have a dedicated team composed of thoughtfully selected and experienced personnel in laboratory operation and laboratory administration, who conduct thorough research on regulatory requirements related to setting up an independent clinical laboratory in the target city to ensure compliance with local regulations and rules throughout the process.

We also perform comprehensive industry analysis with a focus on demographics, economic status and allocation of medical resources to estimate the testing demand in local market and determine the scope and volume of available testing that can meet such demand. Our industry analysis also includes a detailed evaluation of the competitive landscape, such as an analysis of existing market players, prospective new entrants and the testing penetration rate. In general, our laboratories are between 2,000 to 5,000 square meters in size and strategically located at economic development zones or high-tech industrial zones of a city with well-established transportation infrastructure to support ease of sample collection and delivery.

After taking into account all relevant factors, our network expansion department will formulate a detailed business plan, including among others, a selected location, probable project costs and budget model. Once a proposal is approved, we then proceed with other related preparation work, including entering into lease agreements, applying for a series of required licenses, permits and approvals from applicable regulatory authorities, construction, procuring testing equipment and devices, building information technology infrastructure, recruiting local employees, and among others. This whole process generally takes eight to 12 months.

In addition to central laboratories, we also set up regional laboratories in lower-tiered cities in collaboration with local governments. Local government support allows us to effectively expand our local customer base and secure the regional market. We plan to continue exploring opportunities in setting up such regional laboratories to better penetrate into untapped markets.

**Accreditation**

The credibility of laboratories is paramount to the health and safety of the patients relying on the testing services provided by laboratories. Our laboratory operations are accredited with various international and domestic regulatory agencies or accrediting organizations.

*ISO 15189 Certification.* ISO15189 is an international standard that specifies the quality management system requirements particular to medical laboratories. The standard was developed by the International Organization for Standardization's Technical Committee 212 (ISO/TC 212). As of December 31, 2022, 18 of our self-operated laboratories were ISO15189-certified by China National Accreditation Service for Conformity Assessment ("CNAS"), providing customers with the assurance that comes with this rigorous global standard. CNAS is the national accreditation body of China unitarily responsible for the accreditation of certification bodies, laboratories and inspection bodies, which is established under the approval of the Certification and Accreditation Administration ("CNCA") and authorized by CNCA in accordance with the Regulations of the People's Republic of China on Certification and Accreditation.

*CAP Certification*. We also participate in multiple externally administered quality surveillance programs, including the College of American Pathologists ("CAP") program. CAP is an independent, non-governmental organization of board-certified pathologists approved by The Centers for Medicare and Medicaid Services ("CMS") to inspect laboratories to determine compliance with the standards required by Clinical Laboratory Improvement Amendments of 1988 of United States ("CLIA"). This accreditation is not only recognized by medical community as one of the most stringent international standards of laboratory quality but also sought after by international biopharmaceutical companies. The CAP program involves both on-site inspections of the laboratory and participation in a CAP accepted proficiency testing program for all categories in which the laboratory is accredited. A laboratory's receipt of accreditation by CAP satisfies the CMS requirement for CLIA certification. In March 2008, our Shanghai laboratory was accredited by CAP, being the first ICL to obtain such accreditation in China.

## OUR TESTS AND SERVICE OFFERINGS

We offer a competitive and comprehensive catalog of over 4,000 medical diagnostic tests, comprising over 1,700 routine tests and over 2,300 esoteric tests, as of December 31, 2022. In comparison, the size of our testing portfolio of Class III hospital in-house clinical laboratories is typically ranging from 500 to 1,000 in China, according to Frost & Sullivan. 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.

To deliver more attractive value propositions to our customers, we are one of a few ICL service providers in China to generate comprehensive testing reports for our customers. Instead of evaluating medical value of test results on an isolated basis, our laboratory technicians interpret all previous test results of the same patient available in our database based on extensive medical knowledge and clinical correlation, so as to generate a comprehensive report to better assist physicians' diagnosis and treatment. We are currently a market leader in the comprehensive reporting of blood diseases, and we plan to further strengthen our comprehensive reporting capabilities.

We offer two types of tests, routine tests and esoteric tests. Routine tests typically measure various important health parameters, such as the condition and functions of the kidneys, heart, liver, thyroid and other organs. The results of these tests are generally straightforward and many of them require no interpretation by experts. Routine tests follow well-established and uniform protocols with standardized pricing. Commonly ordered routine tests include blood chemistries, urinalysis, allergy tests and complete blood cell counts. According to Frost & Sullivan, we maintained one of the most comprehensive routine test menu among all nationwide ICL players in China, as of the Latest Practicable Date.

The following table sets forth our frequently used routine testing methods during the Track Record Period:

| Test Method | Description | Primary Clinical Uses in Diagnostics |
|---|---|---|
| Complete Blood Count (CBC) | Is a set of laboratory tests that provides information about the cells in a person's blood. The CBC indicates the counts of white blood cells, red blood cells and platelets, the concentration of hemoglobin, the hematocrit, as well as physical characteristics of certain red blood cell indices and white blood cell profiling. | The CBC test is an essential tool of hematology, used for the prognosis, treatment, and prevention of diseases related to blood, and many related conditions such as anemias, bone marrow disorders, clotting disorders, cancers, allergies, etc., and plays an extremely important role in the diagnosis and treatment of diseases. |
| Liver Function Test (LFT) | Is a set of biochemical tests to measure indicators related to the metabolic functioning of the liver. | The LFT is used to detect the presence or absence of various types of liver and blood disorders, the degree of liver damage, and to determine the prognosis and identify the cause of certain liver and blood related diseases. |

| Test Method | Description | Primary Clinical Uses in Diagnostics |
|---|---|---|
| Thyroid Function Test . . . . . | Chemiluminescence detection technology is used to detect thyroid function related indicators to determine the metabolic functioning of the thyroid. | Thyroid function can effectively reveal disorders relating to hypothalamic, pituitary and thyroid dysfunction, thyroid disease, such as hyperthyroidism, hypothyroidism, thyroid cancers and other diseases. |
| Lipid Profile . . . . . | Blood lipid examination is mainly a method of quantitative determination of the lipids contained in the blood, including cholesterol and triglycerides. | By checking the blood lipids, you can detect and monitor the progression of lipid related diseases such as arteriosclerosis, hyperlipidemia, coronary heart disease, diabetes, certain genetic diseases, nephrotic syndrome, and other cardiovascular diseases. |
| Blood Culture . . . . . | Blood culture is a kind of inoculation of freshly isolated blood samples into blood culture bottles, under certain conditions of temperature and humidity, so that pathologic bacteria and fungi can be grown and identified. | Blood culture is used to detect and monitor blood infections such as bacteremia, sepsis and catheter-related blood stream infection as well as monitor the sensitivity and efficacy of drug therapies used to treat infections. |
| Liquid-based cytology for cervical cancer screening . . | The liquid-based thin-layer cell detection system is used to detect cervical cells and perform cytological classification diagnosis. | Liquid based cytology is used in the screening and diagnosis of abnormal cervical cells indicative of cervical cancer. |

Esoteric tests are more complex tests that generally require interpretation by experts and/or sophisticated technology. Esoteric tests are typically ordered when a physician requires additional detailed information to complete a diagnosis, establish a prognosis or select a therapeutic/monitoring regimen.

During the Track Record Period, we made significant progress in strengthening our esoteric testing capabilities. Our esoteric test menu grew from over 800 items in 2020 to over 2,300 in 2022. In 2022 alone, we introduced over 850 new esoteric test items, focusing mainly on genetic diseases, solid tumors, and hematological diseases, which significantly strengthened our testing capabilities and extended our abilities to serve customers with demand for more complex and informative test results, such as Class III hospitals and CROs. In addition, through the introduction of pharmacogenetic, drug concentration detection projects and neuroimmune tests, we further diversified our service offerings to meet growing market demand.

As an illustration of our continuing quest to expand our service offerings, we entered into partnership agreements with world's leading and internationally acclaimed companies. For example, in June 2022, we entered into a strategic partnership agreement with Guardant Health (Nasdaq: GH), a leading precision oncology company, pursuant to which, we are granted the exclusive rights to perform Guardant's industry-leading comprehensive genomic profiling (CGP) tests, including the first blood-only test that detects residual disease and monitors for cancer recurrence, to researchers in China to help them identify patients whose cancer has the right molecular profile for their clinical programs, streamlining patient screening and clinical trial enrollment. Moreover, we are the exclusive licensee to process Guardant's proprietary liquid and tissue biopsy assays in China. Guardant RevealTM, the first blood-only test that detects residual disease and monitors for cancer recurrence, will also be offered to biopharmaceutical companies for early-stage cancer research and development. In addition, in April 2021, we entered into a master lab agreement with a leading global CRO providing comprehensive, integrated drug development, laboratory and lifecycle management services, to provide testing services for its designated clinical research study or projects. Recognition by world's leading CROs and biopharmaceutical companies reinforces our market leadership, and gives us competitive edge in the industry.

The following table sets forth our frequently used esoteric testing methods during the Track Record Period:

| Test Method | Description | Primary Clinical Uses in Diagnostics |
|---|---|---|
| Non-invasive Prenatal Testing (NIPT) | This testing analyzes small fragments of DNA which comes from placenta tissue of a developing fetus and are shed into the mother's bloodstream. These DNA fragments are free-floating and not within cells, and so are called cell-free DNA (cfDNA) and are detected through a maternal blood draw, which is non-invasive to the fetus. | Detects risk factor of chromosomal aneuploidy in the fetus, and determines whether the fetus has Down syndrome (Trisomy 21), Edward's syndrome (Trisomy 18), Patau's syndrome (Trisomy 13), other chromosomal disorders and genetic abnormalities. |
| Metabolic Profile Screening | It is a qualitative and quantitative analysis instrument for substances by detecting the mass and charge ratio (m/z) of substances. The feature of detecting multiple diseases at the same time through the same specimen greatly improves the efficiency of large-scale screening for multiple newborn diseases. | Metabolic profile screening through liquid-phase tandem mass spectrometry has high sensitivity for diseases that are difficult to detect by commonly used screening methods, and improves the scope and accuracy of screening of newborn diseases, including amino acid metabolism disorders (such as phenylketonuria, maple syrup urine disease, homocystinuria), fatty acid oxidation defects (such as medium-chain acyl-coenzyme A dehydrogenase deficiency, carnitine uptake defect), organic acid metabolic disorders (such as glutaric acidemia, methylmalonic acidemia). |

| Test Method | Description | Primary Clinical Uses in Diagnostics |
|---|---|---|
| Immunophenotyping Analysis | Use fluorescein-labeled monoclonal antibodies to detect the presence of cell membrane and cytoplasmic antigens of leukemia or lymphoma cells from blood, lymph nodes or bone marrow samples, and to characterize and differentiate various types of the leukemia or lymphoma cells. Through flow cytometry, the distribution and quantity of each antibody-labeled cell in the abnormal cell population can also be determined. | It is used to assist the diagnosis and classification of leukemias and lymphomas including acute myeloid leukemia (AML), acute lymphoblastic leukemia (ALL), chronic lymphocytic leukemia (CLL), B-cell and T-cell non-Hodgkin lymphomas, multiple myeloma (MM) and characterizes the presence of certain cell markers such as CD34, CD19, CD20, CD22, CD16, etc. which can determine susceptibility to certain targeted therapies such as Car-T, bispecific T-cell engagers, and monoclonal antibody treatments. |
| Immunofluorescence tissue assays | The fluorescein linked antibodies are used to react with the antigen in tissue specimens, and viewed under a fluorescent microscope to observe the fluorescence emitted by the antigen-antibody complex, thereby identifying and positioning of the targeted antigen in a specimen. | It is often used for immunopathological examination of renal, vascular, skin and connective tissue biopsies to determine the histopathological diagnosis of various diseases such as renal nephritis, autoimmune diseases, vasculitis, and connective tissue disorders. |
| Metagenomic NGS... | Metagenomic NGS refers to next generation high-throughput sequencing of all biological genomes in a specimen, including bacteria, fungi, parasites, and viruses. In the field of infectious disease diagnosis, a variety of pathogenic microorganisms can be detected without prior knowledge of a specific pathogen, and it is gradually being applied to clinical infectious disease pathogen detection. | Metagenomic sequencing can be performed on blood, stool, cerebrospinal fluid (CSF), urine, nasopharyngeal swabs, etc., and can be used in a targeted or untargeted approach for the detection of difficult to diagnose infections such as meningitis, encephalitis, detection of novel pathogens or identifying infections in immunocompromised patients. |

| Test Method | Description | Primary Clinical Uses in Diagnostics |
|---|---|---|
| Tumor molecular profiling . | Molecular profiling of cancers is performed through high-throughput sequencing of genes from tumor samples or from circulating tumor DNA, where certain genetic markers are detected to help stratify a tumor's susceptibility to targeted therapies in order to prolong the survival time of patients, improve the quality of life, or bring the cancer to remission. | Molecular profiling enables the identification of susceptible tumor mutations that can be treated with specific targeted therapies or chemotherapy. Such molecular mutations such as HER2, ALK fusions, EGFR, BRCA1/BRCA2, BTK, Bcl-2, etc. are some of the mutations with approved targeted therapies in China. |

Our medical diagnostic testing services are divided into five specialty groups: clinical immunologic testing, clinical chemistry testing, clinical molecular biology testing, pathology testing and other comprehensive testing. The following table sets forth details relating to frequently requested tests by specialty group during the Track Record Period.

| Specialty Group | Description | Techniques | Test Sub-items | Primary Clinical Uses in Diagnostics |
|---|---|---|---|---|
| Clinical Immunologic Testing . . . . . | Clinical immunologic tests employ an antigen to detect presence of antibodies to a pathogen, or an antibody to detect the presence of an antigen | Chemiluminescence technique, immunofluorescence technique, Enzyme-Linked Immunosorbent Assay (ELISA), etc. | Tumor marker tests (alpha-fetoprotein (AFP), for example); Hepatitis B Virus tests (consists of hepatitis B surface antigen (HBsAg) test, anti-HBs test, hepatitis B e antigen (HBeAg) test, anti-HBe test and anti-HBc test); Thyroid function test (testing the level of thyroid-stimulating hormone (TSH), for example); Antinuclear antibody (ANA) test, etc. | Auxiliary diagnosis, differential diagnosis, treatment monitoring, effect evaluation, prognostic judgment and recurrence monitoring of tumors, evaluation of thyroid function, as well as auxiliary diagnosis, disease activity assessment and medication instruction of infectious diseases and autoimmune disorders such as rheumatism and systemic lupus erythematosus (SLE) |

| Specialty Group | Description | Techniques | Test Sub-items | Primary Clinical Uses in Diagnostics |
|---|---|---|---|---|
| Clinical Chemistry Testing . . . . . | Clinical Chemistry tests, by measuring the components of body fluids, mostly on serum or plasma, reveal the changes of diseases and the effects of drug treatments on body's biochemical processes, so as to provide useful information for disease diagnosis, disease monitoring, prognostic judgment and disease prevention | Biochemical technique, immunoturbidimetric technique, high pressure liquid analysis method, etc. | Testing of sugar and its metabolites (such as glucose); protein detection (albumin and total protein, for example); enzyme assay such as Alanine aminotransferase (ALT) for the purpose of discovering hepatobiliary diseases; measuring of urea and creatinine for the purpose of discovering kidney diseases, etc. | Diagnosis and treatment of various diseases including diabetes, hepatobiliary diseases, kidney diseases, cardiovascular diseases, and electrolyte metabolism disorder |
| Clinical Molecular Biological Testing . . | As a mainstay in the repertoire of infectious disease diagnostics, molecular biological tests primarily relies upon the methods of polymerase chain reaction (PCR) and immunochromatography, with the advantage of simultaneously analyzing resistance determinants and virulence factors | PCR technique, multiplex fluorescence PCR method, constant temperature PCR method, hybridization method, high-throughput sequencing (NGS), etc. | Hepatitis B virus deoxyribonucleic acid, human papillomavirus genotyping, CYP2C19 gene polymorphism detection; tumor free DNA EGFR gene mutation detection; nucleic acid detection of Mycobacterium tuberculosis, nucleic acid detection of Chlamydia trachomatis; thalassemia gene mutation detection; detection of genes related to individualized medication for lung cancer, NIPT, etc. | Detection of infectious diseases related genes (such as hepatitis B virus, hepatitis C virus, human papillomavirus, tuberculosis, venereal disease), blood cell-free DNA tumor-related gene detection, genetic related gene detection, drug metabolism related gene detection, maternal Non-invasive prenatal testing of free fetal DNA in blood |
| Pathology Testing . . | Pathology tests involve examining and testing body tissues (from biopsies and pap smears, for example) and bodily fluids (from samples including blood and urine) under a microscope to determine whether they are cancerous by identifying structural abnormalities | Histopathological slide preparation, cytopathological slide preparation, immunohistochemistry technique, fluorescence in situ hybridization technique (FISH), etc. | Histopathological diagnosis; ThinPrep Cytologic Test (TCT); Bone marrow biopsy; Immunohistochemical examination, etc. | Diagnosis and differential diagnosis of tumor and non-tumor tissues; molecular diagnosis, individualized treatment and prognostic judgment of hematological tumor |

| Specialty Group | Description | Techniques | Test Sub-items | Primary Clinical Uses in Diagnostics |
|---|---|---|---|---|
| Other Comprehensive Inspections. . . . . | Other tests that cannot be classified into the above four types of testing, in which the technology applied is relatively extensive | Complete blood count technique, atomic absorption spectrometry (AAS), liquid chromatography-mass spectrometry technique, cell culture technique, flow cytometry, microbial culture, microbial mass spectrometry technology, biochemical identification technique, instrument MIC method, paper diffusion method, etc. | Complete blood count (CBC); urine routine test; Trace element tests; chromosome karyotype analysis; culture and identification of bacteria; culture and identification of fungi; culture and identification of Anaerobic; antibiotic susceptibility analysis, etc. | Diagnosis and treatment basis for body infection, anemia, blood diseases, urinary system diseases, infertility, repeated abortion; monitoring of trace element balance; evaluation of nutritional status; etiological diagnosis of infectious diseases, rational use of antibacterial drugs and epidemiological investigation |

The following table sets forth a revenue breakdown of our medical diagnostic testing services by specialty groups for the periods indicated.

| | For the Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | 2021 | | 2022 | |
| | RMB | % | RMB | % | RMB | % |
| | (RMB in thousands, except for percentages) | | | | | |
| **Specialty Group** | | | | | | |
| 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 |
| **Total[(1)]** . . . . . | **2,513,184** | **100.0** | **3,144,832** | **100.0** | **4,400,748** | **100.0** |

*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.

## OUR ICL CUSTOMERS

As a nationwide ICL service provider with a comprehensive test catalog and competitive pricing, we are able to offer differentiated value propositions to a broad array of customers we serve.

We believe that we are an industry leader in servicing medical institutions. As of December 31, 2022, our testing services covered over 16,000 medical institutions across China, including over 6,000 public medical institutions, and over 10,000 private medical institutions, including hospitals, clinics and health check centers.

### Hospitals

Generally, hospitals maintain an on-site laboratory to perform clinical testing for their patients. However, in light of continued pressure to reduce healthcare costs, hospitals are more inclined to outsource tests to ICL service providers like us to improve profitability and better utilize their internal laboratory capacity. According to Frost & Sullivan, the cost of using ICL services is typically 10% to 15% lower than in-house testing costs due to underutilization of reagents, laboratory technicians and instruments within hospitals. Moreover, continuing medical advances in recent years have allowed for earlier diagnosis and treatment of diseases, which heavily rely on new sophisticated and specialized diagnostic tests. These tests generally require large up-front investments for testing technologies and trained laboratory technicians. As a large-scale ICL chain operator with quality testing capabilities, we are increasingly recognized by hospitals as a go-to choice for esoteric tests.

We have extensive coverage of public hospitals, community health centers and private hospitals and clinics. We provide both routine and esoteric testing services to help them ease the cost pressures from their in-house testing operation and increasing needs for esoteric testing where they have limited in-house testing capabilities. Public hospitals in China are organized according to a three-tier system that recognizes a hospital's ability to provide medical care and medical education, and conduct medical research. Based on this, hospitals in China are generally designated as primary, secondary and tertiary institutions, or Class I, Class II and Class III. Community health centers are typically unrated or rated as Class I under the three-tier system.

A Class I hospital is typically a township medical institution that contains less than 100 beds. They primarily focus on providing preventive care, basic health care and rehabilitation services. As mandated by NHC Medical Institute Basic Standards, Class I hospitals are required only to have a basic laboratory with minimal staffing. Class II hospitals, on the other hand, tend to be affiliated with a medium-sized city, county or district and contain between 100 and 500 beds. They typically can provide comprehensive health services, as well as medical education and conducting research on a regional basis. Class II hospitals are typically equipped with clinical testing and pathology departments. Limited by sample volume and the shortage of qualified laboratory technicians, Class I and Class II hospitals and community health centers are more inclined to outsourcing their tests to high-value and cost competitive service providers, like us, who will be able to effectively expand their test menu without further capacity or investments. We leverage our economies of scale as a nationwide player and our continuous efforts in cost control to offer more competitive pricing to secure customers. During the Track Record Period, we primarily provided routine testing services to Class I and Class II hospitals and community health centers.

Class III hospitals are typically comprehensive or general hospitals at the city, provincial or national level with over 500 beds. They are responsible for providing specialist health services, perform a bigger role with regard to medical education and scientific research and serve as medical hubs providing care to multiple regions. As mandated by NHC Medical Institute Basic Standards, Class III hospitals are required to have clinical testing departments and pathology departments, and therefore are able to ensure their internal capacity in terms of routine tests, and only occasionally outsource routine tests when their capacity is exceeded. However, we support Class III hospitals in gaining access to esoteric tests which may require significant upfront investment, even at smaller testing volumes.

During the Track Record Period, we secured our hospital customers mainly through one-on-one commercial negotiation by our dedicated in-house sales and marketing personnel, and to a lessor extent, through participation in tendering process organized by certain public hospitals, pursuant to regulatory requirements or their respective internal policies. In 2020, 2021 and 2022, 1.2%, 1.8% and 1.4% of our customers were secured through tendering process, respectively. Specifications contained in each tender document for different hospitals may vary, but hospitals typically require testing service providers to be equipped with certain high-end testing technologies, such as polymerase chain reaction, or PCR, gene sequencing, metagenomics, mass spectrometry and pathological diagnosis. Hospitals may also require testing service providers to be equipped with certain accredited and established quality control systems. We normally enter into service agreements with hospitals and the following summarizes the salient terms of such agreements:

***Duration***. Our service agreements with hospitals typically range from one to two years, subject to renewal.

***Customers' Obligations***. Our customers shall ensure the samples they provide are compliant with our relevant prerequisites for testing, and shall designate personnel to assist with the delivery and acceptance of the samples. Our customers will be solely responsible for any consequence resulting from their failure to comply with our sample requirement.

***Our Obligations***. We shall provide specific testing services to our customers in accordance with the pre-determined testing methods, and issue a testing report within prescribed period of time. We warrant to keep the information related to the samples and testing results confidential, unless otherwise required by applicable laws and regulations.

***Fee arrangement***. The service agreements typically set forth a list of tests that a hospital outsources to us with a pre-determined fee schedule. In the event of a price change as a result of regulatory or policy changes during the term of the agreement, we may negotiate price adjustments with our customers accordingly.

***Payment***. Payment shall be settled on a monthly basis.

In addition to our testing services, we also provide technical services to Class I and Class II hospitals to optimize the operations of their clinical laboratory departments. Class I and Class II hospitals face a variety of challenges to effectively utilize their in-house laboratory capacity, including laboratory operation, supply chain and inventory management, data processing and analytics as well as human resources management. Leveraging our market leadership, especially our experience in operational efficiency, we were chosen by a number of Class I and Class II hospitals to provide technical services to them. As of December 31, 2022, we provided technical services to 41 hospitals and seven other medical institutions, primarily located in Shanghai, Zhejiang, Jiangsu, Anhui and Shaanxi provinces. We enter into technical service agreements with these hospitals, with terms typically ranging from five to eight years. The services that we provide include holding regular trainings for the physicians and technicians to keep them abreast of the latest industry advances and market practice, and assisting these hospitals on building quality control and operations systems to reach ISO15189 standards. We also bring in our experiences in building up the laboratory information technology infrastructure to ensure optimal laboratory performance. Furthermore, we also assist these hospital customers with overall supply chain management, including procurement of reagents, consumable materials and equipment for performing clinical testing in their laboratories.

### Health Check Center

In recent years, the value of disease detection and prevention, wellness and personalized healthcare has been increasingly recognized by consumers in China. Individuals, employers and government agencies have been growingly focused on helping the healthy stay healthy, detecting symptoms among those at risk and providing preventive insight and care that helps avoid diseases. According to Frost & Sullivan, health check industry in China has grown with a CAGR of 4.3% from RMB118.3 billion in 2017 to RMB140.0 billion in 2021, and is expected to reach RMB178.4 billion by 2026. The number of people who seek medical check-ups in China reached 447.4 million in 2021, and is expected to grow with a CAGR of 4.4% to 521.1 million by 2026. Driven by increasing demand from customers, there has been a growing outsourcing rate of tests from health check centers as they are incentivized to seek cost competitive tests performed with premium quality.

We serve both health check departments affiliated with hospitals and independent chain health check providers to fulfill their increasing health check testing demand with high quality and cost-competitive testing services. Our nationwide laboratory coverage enables us to cooperate with large independent chain health check providers that have an extensive consumer outreach, where we could intake testing samples from a wide range of locations. Moreover, for health check centers, it is of vital importance that their cooperative partners are able to perform a large volume of routine tests in a cost-effective and efficient manner. Our outstanding cost control efforts and advanced logistics capabilities position us to effectively serve health check centers and capture the growing opportunities. In addition to health check departments affiliated with hospitals, we served a total of over 930 health check centers in China as of December 31, 2022.

Tests outsourced by health check centers are typically routine tests. We normally enter into a framework agreement with independent chain health check providers at their group level which sets forth general guidelines and pricing for our cooperation. On top of that, our laboratories then separately enter into cooperation agreements with individual health check centers based on their geographic locations. Such individual agreements entered into by each laboratory set out key provisions and details of our cooperation, for example, pricing, test menu, sample transportation and delivery arrangement, and settlement mechanism. The following summarizes the salient terms of such agreements:

***Duration***. The agreements with health check centers typically have an initial term ranging from one to three years subject to automatic renewal.

***Customers' Obligations.*** Health check centers shall use their best efforts to prioritize us when outsourcing their testing services.

***Fee Arrangement***. Both parties agree to revisit and reevaluate the pricing of services for the previous year in the first quarter of each year and negotiate new prices for testing services, if necessary.

***Payment***. Payment shall be settled on a monthly basis.

An example of noteworthy collaboration with independent chain health check providers is our relationship with Meinian, a leading health examination and health consulting service provider in China that we started cooperating with in April 2019. We provide testing services on samples provided by Meinian's health check centers across the country.

The following summarizes the salient terms of the currently effective collaboration and strategic partnership framework agreement we entered into with Meinian:

***Duration***

- The term of the agreement is three years.

***Scope of Cooperation***

- Meinian shall use its best efforts to prioritize us when outsourcing their testing services, including testing items that are currently handled by Meinian itself with an intention to be outsourced to us going forward ("Meinian self-tested items"), and those already outsourced to third-party ICLs. If it is our reason that we are not able to take certain orders from Meinian, Meinian may seek other ICL service providers.
- For certain Meinian self-tested items, we shall consult with Meinian as to whether we may need to engage their corresponding technicians and equipment for such testing items. If such engagement is deemed necessary, we shall enter into separate agreement with Meinian's technicians and equipment suppliers, where applicable, to ensure the smooth handover of the relevant testing items.

***Our Obligations***

- We shall timely deliver our testing services and reports in compliance with applicable regulatory requirements and industry specifications.
- We shall provide trainings and guidance to Meinian to help them (i) better understand the testing report issued by us, and (ii) perform their duties under the collaboration, which mainly include proper sample treatment, storage and handover.
- In the event of a dispute between Meinian and its customer with regard to testing results, we shall provide relevant backups for such results upon Meinian's notification.
- We warrant to keep the information related to the samples and testing results confidential, unless otherwise required by applicable laws and regulations.

***Meinian's Obligations***

- Meinian shall collect, treat and store the samples properly pursuant to the guidelines we provide. We may refuse and return the order if the samples fail to meet our requirements.
- Meinian shall store all samples in its health check centers and arrange relevant personnel to take care of the sample handover.
- Meinian shall make sure any question on the testing results shall be raised within relevant sample retention period.

***Pricing Arrangement***

- Both parties agree to set the price through amicable consultation with reference to the fair market price.
- For certain Meinian self-tested items, we may also refer to a cost-plus pricing mechanism upon consultation with Meinian under limited circumstances, where our reagent costs experienced unexpected increase.
- Both parties agree to revisit and reevaluate the pricing of services regularly and negotiate new prices for testing services, if necessary.

***Payment***

- Payment shall be settled on a monthly basis.

Besides such collaboration with Meinian, we have no other relationships in terms of business, financing, family, or management, with Meinian, its subsidiaries, shareholders, directors, senior management or close associates of such parties as of the Latest Practicable Date.

The following table sets forth a revenue breakdown of Meinian associated customers for the periods indicated.

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2020 | 2021 | 2022 |
| | (RMB in thousands) | | |
| Meinian controlled entities | 97,251.0 | 104,469.3 | 181,788.6 |
| Meinian non-controlled associated entities[(1)] | 154,837.4 | 185,414.3 | 109,833.2 |
| **Total** | **252,088.4** | **289,883.6** | **291,621.8** |

*Note:*

(1) Including entities associated with Meinian's brands through a franchise model, as well as entities operated by the related parties of Meinian but not the subsidiaries or franchisees of Meinian.

**Biopharmaceutical Companies and Contract Research Organizations**

The past few years have seen the rise of research on innovative drugs in China, creating an increasing demand for clinical trials and studies and leading to the development of the contract research organizations, or CROs. Due to a high proportion of unfulfilled testing and research demand and in an effort to improve the outcome of clinical trials and studies, biopharmaceutical companies and CROs have been increasingly looking to collaborate with ICLs that have both proprietary disease insights and comprehensive and high quality testing services.

As a leading ICL player in China, we are a forerunner in serving biopharmaceutical companies and CROs. Our strong testing expertise and effective quality control adherence to global standards allow us to offer an array of services to support our customers in streamlining drug development process and to help accelerate clinical trials and speed of drugs to market. These services include sample testing, sample storage, and logistics for test sample and test kits and data management of the clinical trial test results. During the Track Record Period and to the Latest Practicable Date, we collaborated with approximately 300 leading international and domestic biopharmaceutical companies and CROs, primarily through our Shanghai laboratory, which is accredited by both ISO15189 and CAP. Through cooperation with internationally reputable CROs, we participated in various multi-center clinical trials in China of innovative drugs. We believe that we have been able to meet the demands of biopharmaceutical companies and CROs for testing by offering uniform testing methodology and having the ability to provide complex protocol-specific tests such as pharmacokinetic parameters, metabolite concentration, genetic mutation and biomarker tests that meet the stringent requirements of research and clinical trials.

In order to form collaborations with biopharmaceutical companies and CROs, we must go through their rigorous quality assurance audits and technical validations to demonstrate that the design, specification, and performance of our tests as well as our testing workflow meet their quality and technical requirements. We normally enter into laboratory service agreements with biopharmaceutical companies and CROs, and the following summarizes salient terms of such agreements:

***Duration***. The agreements normally end upon customers' receipt of our testing results.

***Our Obligations***. We are normally required to perform tests by strictly following specifications and requirements set out by our customers. We are obligated to retain all raw data and documents required by applicable industry guidelines and local laws for a certain period of time after the completion of laboratory services to our customers.

***Customers' Rights***. Under these agreements, biopharmaceutical companies and CROs are entitled to perform audits at our laboratories at any time during the normal business hours to verify our compliance with the principals set by them. Biopharmaceutical companies and CROs own the exclusive rights to all testing results we perform.

***Fee Arrangement***. The price is determined upon the nature, duration and sophistication of our testing services.

***Payment***. For certain types of long-term cooperation, we typically require biopharmaceutical companies and CROs to pay partial service fees as prepayment upon the signing of the agreement, and with the rest of the fee paid upon delivery of our testing results.

**Employers and Consumers**

The outbreak of COVID-19 created tremendous market opportunities for large-scale ICL service providers like us. During the pandemic, ICLs played a crucial role in meeting growing test demand, and broadening access to laboratory insights to help people lead healthier and safer lives. Our industry-leading testing capabilities enabled us to quickly respond to the pandemic by developing COVID-19 testing capacities and offering testing services to a broad array of customers. During the pandemic, we further expanded our offerings directly to employers to assist their pandemic response to create safer workplaces, and to consumers who voluntarily take COVID-19 tests for ease of travel within the country. We soon established our brand awareness among individual customers in selecting COVID-19 test service providers.

Capitalizing on such opportunity, in 2020, we significantly upgraded our touch points on major internet platforms to enable consumers to order our services online. We also built our mini program on WeChat to enhance consumer experience in making online reservation for diagnostic tests. We plan to continue expanding our consumer directed menu to offer more comprehensive test options, such as colorectal cancer screening tests to the extent permitted by applicable laws.

The following table sets forth the number of customers we served for the periods indicated:

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2020 | 2021 | 2022 |
| **Public medical institutions** | **6,156** | **6,335** | **6,035** |
| Public hospitals | 4,752 | 4,765 | 4,825 |
| Other public medical institutions | 1,404 | 1,570 | 1,210 |
| **Private medical institutions** | **8,970** | **10,242** | **10,724** |
| Private hospitals and clinics | 8,201 | 9,347 | 9,793 |
| Health check centers | 769 | 895 | 931 |
| **Others**(1) | **4,678** | **3,653** | **2,604** |
| **Total** | **19,804** | **20,230** | **19,363** |

*Note:*

(1) Others include pharmaceutical companies and CROs, as well as employers and individuals. All individual customers in each period are counted as one unit.

The following table sets forth a revenue breakdown by customer types during the Track Record Period:

| | For the Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | 2021 | | 2022 | |
| | RMB | % | RMB | % | RMB | % |
| | (RMB in thousands, except for percentages) | | | | | |
| **Public medical institutions** | **1,230,274** | **44.9** | **1,401,207** | **41.4** | **1,721,959** | **35.5%** |
| Public hospitals | 1,109,257 | 40.5 | 1,251,383 | 37.0 | 1,612,262 | 33.2% |
| Other public medical institutions | 121,017 | 4.4 | 149,824 | 4.4 | 109,697 | 2.3% |
| **Private medical institutions** | **899,424** | **32.8** | **1,199,207** | **35.5** | **1,404,223** | **28.8%** |
| Private hospitals and clinics | 602,687 | 22.0 | 819,145 | 24.3 | 1,003,252 | 20.6% |
| Health check centers | 296,737 | 10.8 | 380,062 | 11.2 | 400,971 | 8.2% |
| **Others**(1) | **612,033** | **22.3** | **779,101** | **23.1** | **1,734,431** | **35.7%** |
| **Total** | **2,741,731** | **100.0** | **3,379,515** | **100.0** | **4,860,613** | **100.0** |

*Note:*

(1) Others include pharmaceutical companies and CROs, as well as employers and individuals.

Revenues across all customer segments experienced steady growth during the Track Record Period. In 2020, the revenue growth was largely driven by public hospitals and other customers as a result of increasing demand in COVID-19 testing. In 2021, private hospitals and health check centers drove higher revenue growth as 2021 saw return of patient volume and demand, when COVID-19 impacts had gradually become more manageable. Public hospitals tend to be larger in scale and serve a larger patient base on average in China than other public medical institutions and private hospitals. As a result, we experienced a larger than average revenue per customer from this customer segment. In terms of private medical institutions, private hospitals generally have lower patient flow with smaller outsourcing scale. However, our average revenues per health check center customer was the highest category with the revenues per customer due to the relatively larger diagnostic testing share we are able to secure from these customers over public and private hospitals. As compared to 2021, revenue growth in 2022 was primarily driven by (i) continued growth contributed by public and private medical institutions, and (ii) revenues contributed by other customers in connection with COVID-19 mass testing.

## SALES AND MARKETING

Sales and marketing is an important function for our business growth and expansion. Effective and efficient sales and marketing efforts enable us to establish our brand recognition and awareness for attracting new customers and retaining existing ones. As of December 31, 2022, we had a dedicated sales and marketing team of over 1,500 employees nationwide. We also deployed a special esoteric sales and marketing team that have more specialized knowledge base and expertise for esoteric testing services to target various clinical departments at medical institutions. In addition, we also designated two special teams of sales and marketing personnel for health check centers and biopharmaceutical companies and CROs.

We provide regular training to our sales and marketing personnel to enhance their knowledge about our services, professional skills and keep them abreast with the latest technique and technology development in the ICL industry. We also sponsor external training courses and programs for our sales and marketing personnel from time to time. We believe that an in-house sales and marketing team with high level of industry knowledge and expertise is important to implement our marketing approach and to enhance our reputation and brand image.

We have adopted a "headquarters – laboratory" two-level sales and marketing management scheme. Our headquarters is responsible for laying out strategies, goals and overall planning for business expansion, whereas the sales department in each laboratory carries out detailed tasks as required to achieve such goals. To effectively promote our brand awareness, during the Track Record Period, our sales and marketing efforts primarily focused on the following aspects:

- *Academic Marketing*. We place strong emphasis on the academic marketing and promotion of our services. We organize, co-host and participate in a wide variety of academic conferences, seminars and symposia, ranging from large-scale national and regional conferences to smaller local events tailored for specific hospital departments.
- *Key Opinion Leader Engagement*. We have established long-term relationships with a number of renowned physicians and other healthcare professionals in our target therapeutic areas. We consider these physicians and other healthcare professionals as KOLs based on their professional qualifications, previous publications as well as academic standing and recognition within their respective specialties. We invite KOLs to attend national and regional conferences, share the latest industry developments, and when time allows, we also invite them to our laboratories to share their experiences with our technicians. We believe our engagement with KOLs helps us enhance our brand awareness within the industry and build up our reputation.
- *Insight-based New Service Offerings.* Sponsoring and participating in various academic conferences allow us to gain insights into recent clinical developments and identify service offering trends in a timely manner. Leveraging our testing capabilities, we proactively introduce tests that cater to new changes in the industry. Once a new test is introduced, we provide comprehensive trainings for our sales and marketing team, who will then provide detailing services for physicians and KOLs.

The following table sets forth a summary of major academic conferences that we sponsored or participated in during the Track Record Period.

| Name of Conference | Theme of Conference |
|---|---|
| The 2nd "Vision and Detection" Infectious Diseases Case Study in 2022 (2022年第二屆「卓見偵知」艾迪康感染病例交流會) | The conference built a platform for multidisciplinary academic exchanges and collaborations in clinical infectious diseases and microbiological testing. |
| The 2022 China Oncology Conference (2022中國腫瘤學大會) | The conference aimed to promote academic exchanges in the field of clinical oncology in China, with special focus on precision oncology based on multidisciplinary standardized and comprehensive treatment. |
| Launch of the 2022 National Campaign for Public Education of Cervical Cancer (2022年宮頸癌科普宣教公益行全國啟動會) | The campaign focused on the latest developments in the treatment of cervical cancer treatment in China. |
| 2022 Symposium on Precision and Screening of Spinal Muscular Atrophy (SMA)(2022年脊髓性肌萎縮症(SMA)精準與篩查專題會) | The conference held presentations and discussions on genetic screening and diagnostic strategy, disease overview, therapy progress, detection method, and strategy and application of preventive screening, etc. with regard to SMA. |

| Name of Conference | Theme of Conference |
|---|---|
| 2022 Consensual Clinical Interpretation and Promotion of Experts at Humoral Cells as Hydrothorax and Ascites (2022年胸腹水等體液細胞專家共識的臨床解讀與推廣) | The conference focused on discussions of the consensual definitions of humoral cells and the clinical application of flow cytometry of body fluid. |
| 2022 Interpretation on *Chinese Experts Consensus on Prevention of Perinatal Group B Streptococcal Disease (GBS) (2021 Version)* (2022年預防圍產期B族鏈球菌病(中國)專家共識(2021版)解讀) | The conference attended to the interpretation of expert consensus on prevention of GBS, GBS detection technology and progress on its application. |
| 2021 Symposium on Acquired Immunodeficiency Syndrome (AIDS) Diagnosis and Treatment (2021年艾滋診療專題研討會) | The conference covered mainly the clinical application of projects regarding viral load and drug resistance of AIDS, etc. |
| The 14th Summit on Infections of Female Reproductive Tract in China in 2021 (Baiyun Meeting) (2021年第十四屆中華女性生殖道感染峰會(白雲會)) | The conference focused on the latest developments in the progress of female reproductive tract infections and the correct diagnosis and treatment of reproductive tract infections in China and other core topics. |
| The 16th National Academic Conference on Leukemia and Lymphoma of the Chinese Medical Association in 2021 (2021年中華醫學會第十六次全國白血病-淋巴瘤學術會議) | The conference held academic thesis discussions on leukemia, lymphoma, myeloma, immunotherapy of malignant hematological diseases, hematopoietic stem cell transplantation, MDS and MPN, etc. |
| The 24th National Clinical Oncology Conference and 2021 CSCO Annual Academic Meeting (第二十四屆全國臨床腫瘤學大會暨2021年CSCO學術年會) | The conference held lectures on the cellular pyrotopia and tumor immunity, cellular medicine development strategy, and new practice of precision oncology, delivered by domestic experts and scholars. |
| The 2021 National Tuberculosis Academic Conference of the Chinese Medical Association (中華醫學會2021年全國結核病學術大會) | The conference held academic presentations on the diagnosis, prevention, testing, basic research, surgery, nursing and intervention of tuberculosis. |
| Forum of Young Physicians of the Branch of Gynecological Oncology of the Chinese Medical Association in 2021 (2021年中華醫學會婦科腫瘤學分會青年醫師論壇) | The conference organized lectures, debates and youth salons focusing on the history and developments of cervical screening strategies and clinical applications. |

## OUR LOGISTICS CAPABILITIES

To support our broad geographic operation, we have developed a comprehensive and nimble supply chain that effectively moves samples from the point of collection to the testing laboratory. We believe every sample represents a life. Extending across the entire life cycle of a patient sample, from receiving the sample to the delivery of the test result, our supply chain leverages optimized logistics, sample intake, tracking and processing procedures that minimize errors and expedite the performance of testing and delivery of results.

As of December 31, 2022, we had a dedicated in-house logistics team of over 1,300 personnel providing sample logistics services, covering more than 19,000 customers across 30 provinces and municipalities and over 1,600 cities and counties in China. Leveraging our extensive and standardized logistics network, we were able to achieve daily same-day delivery of up to 540,000 samples during the Track Record Period and up to the Latest Practicable Date.

To ensure timely transportation of samples and quick turnaround for testing results, we use automobiles for in-city or cross-city deliveries, railway transport for in-province or close-distance cross-province delivery and air transport for long distance cross-province delivery. As of the Latest Practicable Date, our sample collection and transportation were primarily completed within province and delivered by our fleet of vehicles. As of December 31, 2022, we had a fleet of 767 vehicles to support our transportation needs, including 89 self-owned vehicles and 678 leased vehicles. We have established a strict automobile intake process to ensure service quality and transportation safety and efficiency. For leased vehicles, we normally enter into leasing agreements with reputable leasing companies with a term of one year, which specify the models of vehicles to be leased. We also have vehicle leasing arrangements with our employees pursuant to which we reimburse our employees for their logistics services. We require every vehicle we lease be covered with motor vehicle liability insurance of not less than RMB500,000.

In case there is no coverage of nearby local laboratories for the relevant testing items, for cross-city or cross-province transportation, we primarily engage reliable logistics partners to transport samples for us after our logistics team has collected the samples. In addition, we require the logistics companies to transport our samples on time, following the delivery counts confirmed by us in advance and they shall bear risks of loss in transit. The payments are generally settled on a monthly basis.

Each of our laboratories is equipped with a local logistics team, the size of which is dependent upon the number of customers that laboratory covers. Our in-house logistics teams pick up and collect samples at customer locations in the late morning and early afternoon every day and deliver the samples to one of our nearby laboratories for testing. If the nearby laboratories are not capable of performing certain large scale or esoteric tests, the relevant samples will then be delivered to the nearest capable laboratory via high-speed railway or plane. Upon receipt of samples, our laboratory technicians perform the requested testing, with results typically available before 8:00 am the next day and in most cases, electronically delivered to the physician via electronic medical record interfaces on our website or through the in-house system of the medical institutions.

Before a sample is picked up by our logistics team, physicians at our partnering medical institutions perform sample preparation to produce laboratory-ready samples that can be tested upon receipt by the testing laboratory, expediting the delivery of test results. Each sample and the associated test order is checked for completeness and given a unique identification number, which associates the results to the appropriate patient and the details of testing orders, including patient demographics, specific testing requested, a sample inventory, and billing information.

During transportation, all of the samples are kept in our proprietary incubators, which are designed to provide temperature uniformity and contamination prevention. Our proprietary incubators are available in three sizes for human carriage, small vehicles and large vehicles. Each incubator is equipped with thermal control equipment and GPS tracking devices. Incubators are tracked by our team throughout the entire logistics process. As such, we are able to easily locate our samples and constantly control and monitor the temperature of each sample in transit.


*A Type of Our Vehicle*


*Our Proprietary Incubators*

## QUALITY ASSURANCE

Our goal is to provide every customer with services of superior quality. All facets of our services are subject to stringent quality control standards and measures, including laboratory operations, accuracy and reproducibility of tests, as well as customer service and satisfaction. We had established a "headquarters – laboratory" two-level quality assurance system, with a quality assurance team consisting a total of approximately 40 employees. We also assign one to two staffs responsible for documentation management and quality control to each laboratory department. Our quality assurance team is led by Ms. LI Dan, who has over 20 years of experience in laboratory operations and diagnostic testing.

The main responsibilities of the quality assurance team at our headquarters are:

- formulating a unified quality standard and specification policies and manual for each laboratory to follow;
- monitoring each laboratory's quality assurance efforts through unscheduled inspections and regular internal audits;
- establishing quality assurance evaluating indicators for each laboratory to ensure continuous improvement of quality control;
- conducting unified management of LIS and monitoring the operation of each laboratory in real-time by keeping track of key operating data in the LIS, including among others, the usage of reagent and consumables, replacement of equipment and instrument, changes in material inventories; and
- closely supervising the qualifications of each laboratory, including timely application for certifications and accreditations.

The main responsibilities of the quality assurance team in the laboratories are:

- implementing the unified quality management specifications stipulated by our headquarters, and reporting to the quality assurance team in the headquarters on a monthly basis in respect to its work progress;
- formulating specified and detailed work guidance and daily operating standards to ensure that our employees in each laboratory comply with the quality control requirements; and
- taking preventive and corrective measures in a timely manner to improve quality control through regular self-inspections.

Failure in service quality control may adversely affect our reputation and business, and may subject us to medical liability claims. During the Track Record Period and up to the Latest Practicable Date, medical liability claims against us did not, individually or aggregately, have a material adverse effect on our business, results of operations or financial conditions.

## Laboratory Operations

Disciplined operation of laboratories is the pillar of our overall quality control, and serves as the foundation for delivering quality services to our customers. Our quality assurance efforts for laboratory operations primarily focus on the management of onsite laboratory employee, management of equipment and instruments, and management over reagents and consumables.

### *Employee Management*

We have set up strict employee management procedures which cover personnel qualifications, training and continuing education. All of our newly recruited employees are required to complete a set of comprehensive trainings to ensure that they adhere to and implement our quality control policies and procedures. For newly recruited employees who will be working in the laboratories, we provide them with additional trainings on professional skills, primarily focusing on quality control and management system, work process and procedures, operations of technology infrastructure, patient information confidentiality and others. We also have designed strict assessment for such professional skills, and only employees who can pass the assessment are eligible to work in our laboratories. In addition, employee review and performance evaluation are carried out every year to ensure that their capabilities can continue to meet our standards.

### *Equipment and Instrument Management*

We employ a wide range of professional equipment and instrument to examine the patients' samples and generate test reports. Therefore, the quality, durability and proper functioning of testing equipment is of vital importance for the stability and accuracy of test results we deliver. We have developed comprehensive management procedures to standardize the selection, purchase, acceptance, use, calibration, maintenance, repair, and scrap management of testing equipment and instrument. Each equipment, before being put into use, is required to be calibrated and verified strictly to make sure it could meet the requirements for clinical tests, and will be issued with a status label for internal record keeping after being accepted to use. Furthermore, we also conduct regular maintenance and calibration for the equipment and instrument to keep close track of the use status of the equipment. We cease the use of any malfunctioned equipment and perform root cause identification. Once repaired, the performance of the equipment will be re-calibrated and the impact of such malfunction on the test samples will be re-validated concurrently. If necessary, emergency measures or corrective actions will be carried out according to our internal procedures.

### *Reagents and Consumables Management*

We regard management over reagents and consumables an integral part of our quality control over laboratory operations, as minor mismanagement of which would directly affect the accuracy of testing results we deliver. Before any suppliers for reagents and consumables are selected, we conduct on-site examination and inspection of their products. We have established stringent procedures for the receipt, storage, acceptance and inventory management of reagents and consumables. Once reagents and consumables are received, each laboratory is required to inspect the products in a timely manner to identify any unqualified ones, report such issues to the headquarters and store them separately from the qualified ones to avoid any misuse. Upon completion of the initial inspection, we require that the reagents and consumables are stored strictly following the manufacturers' instructions. Moreover, considering that reagents and testing kit may be received in different batches, as new batches may be slightly different from those already put in use or under storage, we require any new batches coming in go through strict inspection and performance test to avoid any negative impacts such minor differences may have over the accuracy of our testing results.

### Testing Quality Evaluation and Assurance

In terms of testing, our quality assurance efforts focus on pre-analytic, analytic and post-analytic processes, including verification of sample status, appropriate sample transport, analysis and report accuracy, external quality assessment, reference range relevance, process audits, statistical process control and personnel training for all of our laboratories and patient service centers. We observe test results to identify trends, biases or imprecision in our analytical processes. We also closely monitor the qualification, training and competence of our professional and technical staff.

#### *Pre-analytic Phase*

The pre-analytic phase starts with a test order and ends with preparation of samples ready for testing, including test application, patient preparation, verification of sample status, sample collection, sample pre-treatment, sample delivery and laboratory reception. The pre-analytic phase is the most vulnerable part of the total testing process and is considered to be among the most significant challenges to the laboratory professionals. To minimize errors and enhance the credibility of our test results, we have adopted systematic quality control measures and maintained standardized protocols which encompass all steps involved in the pre-analytic phase to safeguard the quality.

*Contract Signing*. During the contract signing process, we carefully listen to and record the testing method, quality standards and specifications for report generation set by our customers and make sure we put in place sufficient resources to meet the requirements. Right after the contract is signed, we normally distribute our sample collection manual to the customers and organize trainings to help them get familiar with our daily practices.

*Sample Collection*. Improper sample collection can lead to delays in reporting, unnecessary retesting and even decreased customer satisfaction. We set detailed and heightened criteria on all aspects of sample collection process, including among others, patients' preparation, sample collection and container labeling, timing of collection and the volume of different samples. We also provide trainings for personnel who are responsible for sample collection to reduce defects.

*Sample Pre-treatment*. We require our customers to strictly follow instructions and requirements set forth in our sample collection manual for centrifugation, aliquoting, pipetting, dilution, and sorting of the samples. We also assign each sample a unique identification barcode for our internal tracking and record.

*Sample Delivery and Transportation*. Timely and safe transportation of samples is a crucial step in the pre-analytic phase. We established a nimble cold-chain logistics network to support the sample transportation and we also adopt a series of stringent requirements for each step in the whole process. For details, please see "– Our Logistics Capabilities".

*Sample Receipt*. We have identified a series of quality indicators to help our laboratories staff to closely monitor the qualities of samples. Once the samples are delivered to our laboratories, we require our responsible team to conduct thorough inspection on the quality, thermal control, completeness and accuracy of identification information, and other aspects of the samples to identify any unqualified ones. Information of each qualified sample will then be entered into our LIS for tracking.

#### *Analytic Phase*

The analytic phase begins when the patient sample is prepared for testing and ends when the test result is interpreted and verified. Analytical quality is a significant issue in the whole testing process. To minimize any unrecognized analytical errors, we have established and maintained testing process and procedure manuals according to internationally recognized standards. We also verify test method performance specifications as to test accuracy, precision, sensitivity, specificity, and linearity.

Committed to continuous improvement of quality standards, we proactively participate in external quality assessment, or EQA, annual programs carried out by National Center for Clinical Laboratory, provincial and municipal clinical laboratory centers as well as industry management organizations. Participation in EQA programs helps us evaluate reliability of testing methods, materials, and equipment, indicates areas to be improved, identifies training needs, and provides early warning for systematic problems associated with kits or operations. During the Track Record Period, we received over 4,100 EQA certificates and participated a total number of over 40,000 EQA programs, covering clinical chemistry, immunology, molecular biology, and pathology areas, enjoying a passing rate of 98.5% on average. The successful performance in an EQA program reflects the effectiveness of our laboratory's quality management and ensure that test results are the same across different laboratories for the same sample.

Furthermore, we implement a comprehensive internal quality control program to assess the repeatability of each testing item. We closely monitor and analyze our daily internal quality control result, and generate Levey-Jennings or Z-score quality control charts to identify changes in test performance and to discover and eliminate unsatisfactory factors of our quality control program in a timely manner. In addition to specific testing procedures, we also carry out other extensive laboratory operational measures. For details, please see "– Quality Assurance – Laboratory Operations."

***Post-analytic Phase***

In the post-analytic phase, results are reviewed and released to physicians, upon which they will make diagnostic and therapeutic decisions. We have established a multipronged review mechanism to ensure the accuracy of the testing reports, including using critical data generated from internal quality assurance programs, clinical information and previous test results. During the Track Record Period, we maintained an acceptable error rate of less than 0.1% across all of our testing reports.

**Customer Service**

The customer is at the center of everything we do. We have been dedicated to improving our customer service quality through enhancing our logistics network to expedite sample collection process, and ensure the timely issuance of accurate testing results.

We have formulated a detailed internal protocol in dealing with customer complaints to ensure that rectification and corrective actions will be properly carried out. Upon receiving any customer complaint or feedback on improvement, personnel from customer service department shall complete "Customer Complaint Handling Form" on Corrective Action and Preventive Action Electronic system, or E-CAPA system. Such form will then be forwarded to quality assurance department for handling. Our quality assurance department normally conduct investigations to determine the vesting of accountability before passing on to the responsible department. The responsible department shall record real causes of such complaints in accordance with quality control procedures, as well as implementing rectified or corrective actions for improvement. Subsequently, the business department shall directly relay rectification and corrective improvements to customers. Where timely improvements cannot be made to customer complaints, or their causes or vesting of accountability remain uncertain, business department shall directly discuss and negotiate with customers until a solution satisfactory to the customers is achieved.

## OPERATIONAL EFFICIENCY

We strive to enhance operational excellence and improve efficiency across every segment of our value chain and operations, which we believe will strengthen our foundation for growth and competitiveness. During the Track Record Period, our initiatives on operational efficiency primarily focus on supply chain management, laboratory operation, inventory management and fixed asset management.

## Supply Chain Management

We primarily procure testing instrument, reagents, and other consumables. To ensure uniformity in quality and to secure efficiency, we adopt a centralized procurement system. The bidding and selection process of testing instruments and reagents suppliers are centrally managed by our headquarters, including negotiation of prices, volumes, rebates and credit terms. Framework supply agreements are signed between our headquarters and suppliers, whereas actual purchases are made by each laboratory by directly placing orders with the suppliers.

### *Supplier Selection and Management*

As of December 31, 2022, we sourced from over 1,500 suppliers, mostly reputable domestic and international brands. Suppliers are selected based on stringent criteria. Before engaging a new supplier, our procurement department pre-screens supplier candidates based on their reputation, reliability, product offering, pricing, product quality and capacity. In addition, we sample their products or conduct on-site inspections to ensure that they and their products comply with our quality standards. We periodically review and evaluate the performance of our suppliers. If the performance of a supplier does not meet our requirements and cannot be improved, we will terminate our relationship with such supplier. For the five largest suppliers during the Track Record Period, please see "– Top Customers and Suppliers – Top Suppliers." To prevent any kickback arrangements with the suppliers, we request each of our suppliers to undertake in writing not to violate our anti-bribery and corruption policy. Our anti-bribery and anti-corruption policy prohibits our suppliers to offer any unauthorized payment, such as bribes, kickbacks, or benefit to our employees in order to secure an improper benefit. They are not allowed to conceal their relationships with our management, or deal with any relatives or related parties of our employees with respect to our supplies. Our anti-bribery and anti-corruption policy also prohibits other misconducts, such as fraud or other illegal activities. If any violation of the undertaking is identified, it will be deemed as a material breach of our master supply agreement.

We typically retain multiple suppliers for each major category of procurement to reduce reliance on any particular supplier. We have since our inception identified and established stable business relationships with reliable suppliers. During the Track Record Period and up to the Latest Practicable Date, we did not rely on any single supplier for any of our major laboratory instruments, reagents, or consumables. During the Track Record Period, we did not experience any significant fluctuation in prices set by our suppliers, material breach of contract on the part of our suppliers, or interruption or delay in supplies, which had a material adverse effect on us.

### *Procurement of Testing Instruments*

We implement heightened criteria for selection of our suppliers for testing equipment and instrument and we periodically review and evaluate the performance of such suppliers. We maintain a list of qualified suppliers, who have a proven record of reliable and stable supply, and we only partner with such qualified suppliers. Our testing instruments are either leased or purchased from our suppliers. Most international brands adopt the leasing model. For testing instrument we purchased from our suppliers, we normally enter into agreements on a single order basis.

### *Procurement of Reagents and Consumables*

Our typical supply agreements for reagents and consumables have a term of one year subject to review and renewal. Pursuant to the terms of the agreements, our suppliers are responsible for arranging the delivery of products to our laboratories at their costs. We shall examine and inspect the reagents and consumables upon receipt and are entitled to exchange or return any products that are below quality standards. We are generally given a credit period of 60 to 120 days by our suppliers. In addition, each supply agreement we enter into with our suppliers is annexed with an anti-bribery undertaking letter and product quality assurance warranty we require our supplier to provide.

### Laboratory Operation

Operating our laboratories effectively and efficiently is the key of maintaining our competitiveness in the market. We have carried out a series of industry leading initiatives in monitoring and measuring our laboratory productivity, and improving our overall operational efficiencies, which primarily focus on employee productivity and reagents and consumables efficiency.

*Employee Productivity*. We include employee productivity as one of the metrics in evaluating the overall laboratory productivity. We closely track the working hours of each employee and their respective tasks, through which we are able to evaluate how productive each employee is and easily identify the top performers. By observing the top performers, we meticulously design our training programs to improve overall employees' performance. In addition, our employee incentive mechanism is tightly associated with their productivity analysis. Our headquarters perform monthly statistical analysis on employee productivity by laboratory, and issue comprehensive reports and action plans. Our successful implementation of employee productivity analysis has made us a market leader in cost saving. During the Track Record Period, 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.

*Reagents and Consumables Efficiency*. To use reagents and consumables cost effectively is of vital importance for our overall efficiency. We have adopted lean management scheme to monitor the usage of reagents and consumables across our laboratories. We closely track the level of wastage for each reagent under different tests performed. For example, our system alerts us when the wastage rate for certain reagents exceeds our standard levels. We then analyze the reasons and put forward remedial plans to prevent reoccurrence. This is also used as one of the KPIs for evaluating laboratory performance across our network. Through such management, we are able to minimize reagents and consumables wastages.

### Inventory Management

In order to improve overall laboratory operational efficiency, we have adopted a centralized inventory management system, which easily tracks vital information and movement associated with every reagent and consumable and analyzes inventory level for each of our laboratory. In addition, we provide comprehensive trainings for our employees to make sure that our high standards and criteria could be adhered to thoroughly and completely.

- *Timely Registration of Inventory*. We register and inspect each reagent or consumable upon their arrival at our laboratories. Our inventory management system digitally captures general information for each item from its extensive database, and then generates unique identifiers or barcode labels for such item for our internal tracking.

- *Automatic Alerts of Expiration and Low-Stock*. Unlike traditional manual record and tracking, we rely on our inventory system to track the whole life cycle of our reagents and consumables digitally, including among others, open/expiry dates, location, ownership and per-unit consumption. Our inventory management system captures the opening date and calculate the expiration date based on when the tamper-proof seal is removed. It also has built-in notifications for expiration that timely informs us when our specific inventory is about to expire before it actually expires, leaving us with sufficient time to properly dispose of it and replenish it. Moreover, we are able to keep track all of our inventories at both macro and micro levels and always have appropriate amount on hand to support our operations.

- *Established Purchase Request Management*. To better improve the efficiency of our inventory management, we have set up submission and approval procedures of purchase requests. In addition, through our inventory management system, we also institute visibility into what has and has not been ordered, and whether or not the materials have been received, so as to reduce laboratory wastages.

## RESEARCH AND DEVELOPMENT

We believe research and development is critical to our future growth and our ability to remain competitive in the ICL market in China. We have strong medical and scientific expertise and aspire to be a trusted authority in clinical testing, provide insights and tools to support public and personal health, lead and facilitate scientific discussion and inspire innovation. We are dedicated to discovering, developing and innovating new and advanced testing methods and techniques to better improve testing process and enhance testing efficiency, which thereby provide higher quality services to our ever growing customer base. 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 and seven high-tech R&D laboratories located in Hefei, Jinan, Beijing, Nanchang, Fuzhou, Wuhan and Nanjing. As of the Latest Practicable Date, all of our nine laboratories had obtained High and New Tech Enterprise Certificates issued by relevant local authorities. As of December 31, 2022, we had over 380 R&D personnel, including Ph.D. and master degree holders across molecular biology, genetics and bio-engineering, toxicology, pathology, and other related areas. Our R&D activities are centrally led by our R&D laboratories in Shanghai and Hangzhou.

As of the Latest Practicable Date, we owned 214 registered patents, 315 registered software copyrights, and 115 pending patents applications in China. Our invention patents primarily include LDTs covering our major business focuses, namely infectious diseases and blood diseases, as well as fields with large and unaddressed clinical demands such as personalized medication, single-gene genetic diseases and solid tumors. Leveraging our first-hand clinical knowledge and proprietary technological capacities, our intellectual properties enable us to effectively address the unmet clinical demand and solidify our leadership within the industry. We have invested RMB102.0 million, RMB125.4 million and RMB162.7 million in research and development in 2020, 2021 and 2022, respectively. As our key focus, we expect our research and development expenses to increase in line with the growth of our business.

Our research and development efforts are primarily used to further develop and improve our testing process, efficiency and modalities, broaden our testing portfolio as well as optimize our testing accuracy. We categorize our main research and development efforts into the following categories, and retain the ownership of the intellectual properties developed in the process:

### *Broadening Our Testing Portfolio*

We develop new testing items by leveraging our research and development capabilities, which primarily focus on the prevention, diagnosis, efficacy monitoring, and recurrence monitoring of diseases such as infectious diseases, hematological tumors and genetic diseases.

### *Optimizing Existing Testing Projects*

We optimize and improve the operation efficiency, testing stability and detection sensitivity of our existing products and products acquired from the market. Specifically, we have optimized our products on the flow cytometry, immunohistochemistry and molecular diagnostic platforms.

In addition, we also invest in the improvement of our testing process to optimize our workflow thereby improving our labor efficiency. For sample transportation, we use incubators with frozen liquid-filled features and easy-to-identify embedding instruments in pathological sample circulation.

***Developing New Testing Modalities***

As the clinical testing technologies are diversified and refined, we continue to upgrade the modalities of our clinical test offerings, including NGS detection of lung cancer markers, ICP-MS trace element detection, liquid mass spectrometry drug concentration detection and multi-functional flow cytometry cytokine detection, to meet the evolving customer and market demands.

The following table summarizes a selection of the highlights of our research and development efforts during the Track Record Period.

| Project | Description and Significance |
|---|---|
| Application of pyrosequencing technology in HPV testing | Pyrosequencing technology enables fast and accurate detection of short DNA fragments (≤50bp), without fluorescent labeling of DNA sequence. It can be automated, and suitable for rapid testing for large sample volume. |
| Application of one-tube multi-primer pyrosequencing technology in HPV typing detection | To explore the clinical application value of one-tube multi-primer pyrosequencing technology in the typing and detection of HPV. Highly specific sequencing primers are designed for seven different HPV subtypes, using one-tube multi-primer sequencing method, through semi-nested PCR Amplify and obtain HPV gene fragments and perform pyrosequencing analysis. |
| Mass spectrometry detection methods for genetic metabolic diseases related testing | We established liquid-phase tandem mass spectrometry and gas-phase mass spectrometry detection methods for genetic metabolic diseases. Based on the accumulated data, we established laboratory reference value range, where the two methods were used simultaneously to provide a basis for the accurate detection and diagnosis of genetic metabolic diseases. |
| Detection of full amino acid profile | Accurate detection of a comprehensive panel of amino acids has always been a difficult point in detection. Through the establishment of liquid-phase mass spectrometry detection methods, the detection of full amino acid profiles (40 amino acids) has been achieved, improving upon the traditional methodology of amino acid detection. It is a comprehensive perspective to detect and evaluate the balance of amino acid metabolism. |
| Whole blood immunosuppressive agents | We have established a mass spectrometry method for the clinically commonly used immunosuppressants (cyclosporine A, sirolimus, everolimus, tacrolimus, mycophenolic acid). Such method provides objective indicators for the implementation of individualized dosing regimens, reducing the impact of individual drug differences. It can be used as an observation indicator of drug efficacy, determining the best treatment plan, and avoiding or reducing possible side effects for patients. |

| Project | Description and Significance |
|---|---|
| NGS Detection of Pharmacogenomics related genes . . | We have completed pharmacogenomic testing Panel (PGx Panel), including 124 genes, which enables us to detect mutations such as SNV/indel/CNV and hybrid, well distinguish pseudogene CYP2D7 from CYP2D6 homolog. According to the genotype, the corresponding metabolic types (slow metabolism, conventional metabolism, fast metabolism, ultra-fast metabolism) can be determined, which can meet the above needs of clinical drug safety assessment as well as new drug development. |
| Hematology NGS testing . . . . . | We have developed a series of panels for hematology testing, covering 426 genes related to hematology tumors in the databases of NCCN, ESMO, WHO, FDA, CSCO and other guidelines and OncoKB, CIViC, PMKB, CGI, DoCM, COSMIC, including somatic mutations, germline mutations, drug treatment guidance, rearrangements and fusions, and other gene mutation detection. We have NGS test for ALL-related genes, NGS test for B-cell lymphoma-related genes, NGS test for T-cell lymphoma-related genes, NGS test for diffuse large B-related genes, NGS test for multiple myeloma-related genes, as well as myeloid large panel and gonadal large panel to meet clinical needs in diagnostic staging, treatment guidance, prognosis determination, micro-residue monitoring, clonal evolution, etc. The test is designed to meet clinical needs in diagnostic staging, therapeutic guidance, prognosis, micro-residue monitoring and clonal evolution. |
| CAR-T clinical testing solution . . . | With the development of tumor immunotherapy, chimeric antigen receptor (CAR)-T cell immunotherapy, which combines the advantages of antibodies and immune cells, has received great attention. We have developed clinical testing solutions for CAR-T and other cellular therapeutics on nucleic acid, protein and cellular testing platforms, and have completed the following: exogenous gene copy number detection by fluorescent quantitative PCR; CAR gene copy number detection by digital PCR; lentivirus replication RCL detection by fluorescent quantitative PCR; and CD19 CAR expression detection by flow cytometry. |
| Clinical application of mass spectrometry . . . . . | • Serum antidepressant detection: We have completed the mass spectrometry methods for 17 commonly used antidepressants such as venlafaxine, mirtazapine, paroxetine, bupropion, nortriptyline and citalopram.<br>• Serum schizophrenic/sedative drugs testing: We have completed the mass spectrometry methods for 16 commonly used schizophrenic/sedative drugs such as quetiapine, risperidone, aripiprazole, sulpiride, olanzapine, clozapine, etc. have been completed. |

| Project | Description and Significance |
|---|---|
| | • Serum antiepileptic drug testing: We have completed the mass spectrometry methods for 13 commonly used antiepileptic drugs such as valproic acid, phenytoin sodium, lamotrigine, oxcarbazepine, levetiracetam, carbamazepine, etc.<br><br>• Serum antibiotics detection: We have completed the mass spectrometry method for 13 commonly used antibiotics, including amikacin, imipenem, meropenem, voriconazole, itraconazole, and desmethyl-vancomycin.<br><br>• Serum antipyretic and analgesic detection: We have completed the mass spectrometry analysis method for acetaminophen, acetaminophen cysteine, acetaminophen glucuronide, acetaminophen sulfate, which helps to understand the effect of the antipyretic and analgesic acetaminophen on the liver.<br><br>• Serum steroid detection program: We have completed the mass spectrometry method of 25 hormones, including 17α-hydroxyprogesterone, dihydrotestosterone, dehydroepiandrosterone sulfate, androstenedione and testosterone, which is helpful for the diagnosis and treatment of endocrine diseases such as primary aldosteronism and polycystic ovary syndrome (PCOS). |

The following table summarizes a selection of the pending patents applications as of the Latest Practicable Date:

| Type | Patent | Patent Number | Application Date |
|---|---|---|---|
| Invention ..... | Primers, probes, compositions and methods for screening and identifying Ph-like ALL-related fusion genes using fluorescent PCR technology | 202011121074.2 | October 19, 2020 |
| Invention ..... | Technology for detecting tumor-related multi-gene mutations by using high-throughput sequencing | 202011528444.4 | December 22, 2020 |
| Invention ..... | Free DNA preservation reagent and preparation technology | 202110005990.8 | January 5, 2021 |
| Invention ..... | Technology for large volume extraction of trace amount nucleic acids in mixed swab samples | 202110125242.3 | January 29, 2021 |
| Invention ..... | A set of probes and library building kit for detecting CYP3A4 polymorphisms in pharmacogenomics-related genes using hybridization capture method | 202210030225.6 | January 12, 2022 |

| Type | Patent | Patent Number | Application Date |
|---|---|---|---|
| Invention ..... | A set of probes and library building kit for detecting CYP2D6 polymorphisms in pharmacogenomics-related genes using hybridization capture method | 202210032720.0 | January 12, 2022 |
| Invention ..... | A set of probes and library building kit for detecting CYP3A5 polymorphisms in pharmacogenomics-related genes using hybridization capture method | 202210032721.5 | January 12, 2022 |

In addition, we provide testing services to advanced research projects headed by reputable medical research institutions, universities, and hospitals. During the Track Record Period, we worked on research projects with renowned hospitals, medical research institutions and universities related to CAR-T affinity detection, viral typing and detection, select mRNA expression, brain tissue genotyping and genetic expression in cryopreserved stem cells.

**Research and Development Publications**

The following table describes a selection of some of our publications based on clinical trials and research studies during the Track Record Period and up to the Latest Practicable Date:

| Name of Publication | Journal or Book Title | Collaborating Institution | Publication Time |
|---|---|---|---|
| Analysis of 46 fusion genes in 1,058 newly diagnosed acute leukemia patients (1,058例初診急性白血病患者46種融合基因篩查分析) ..... | Chinese Journal of Clinical Laboratory Science (Issue 6, 2022) (《臨床檢驗雜誌》2022年第6期) | – | 2022 |
| The analysis of two deaf genealogies with mitochondrial 12S rRNA A1555G and tRNAThr mutations (2個攜帶線粒體12S rRNA A1555G和tRNAThr突變的聾病家系分析) ..... | Zhejiang Clinical Medical Journal (Issue 3, 2022) (《浙江臨床醫學》2022年第3期) | – | 2022 |
| Research progress in the clinical use of new immunohistochemical antibodies in the pathological diagnosis of soft tissue tumors (軟組織腫瘤病理診斷中新的免疫組織化學抗體臨床運用的研究進展) ..... | Medical Diet and Health (Issue 21, 2022) (《醫學食療與健康》2022年第21期) | – | 2022 |
| Performance comparison of different nucleic acid extraction Methods for HBV-DNA detection (不同核酸提取方法HBV-DNA檢測的性能比較) ..... | Capital Medicine (Issue 17, 2022) (《首都食品與醫藥》2022年第17期) | – | 2022 |

| Name of Publication | Journal or Book Title | Collaborating Institution | Publication Time |
|---|---|---|---|
| Observe the Clinical Diagnostic Value of TCT and Biopsy Pathology for Early Cervical Cancer and Cervical Intraepithelial Lesions (觀察早期宮頸癌及宮頸上皮內病變採用TCT與活檢病理的臨床診斷價值) | *China Practical Medicine* (Volume 16, Issue 13) 《中國實用醫藥》第16卷13期 | – | May 1, 2021 |
| Analysis on the Fluctuation of Blood Uric Acid Level in Patients with Hypertension Complicated by Different Diseases (高血壓併發不同疾病患者血尿酸水平波動差異分析) | *Medicine and Health* (2021 April) (《醫藥衛生》2021 4月刊) | – | April 1, 2021 |
| The Diagnostic Value of Combined Detection of Serum AFU, AFP, GGT, LAP And APT In Primary Liver Cancer Discussion And Development of Mutual Recognition of Regional Inspection Results (血清AFU、AFP、GGT、LAP 及 APT 聯合檢測在原發性肝癌中的診斷價值區域檢驗結果互認的探討與發展) | *Contemporary Medicine* (August 2020, Volume 26, Issue 22) (《當代醫學》2020年8月第26卷22期) | – | August 1, 2020 |
| Chromosome Karyotype Analysis of Umbilical Cord Blood of 48,600 Newborns in Zhejiang Province (浙江省48,600例新生兒臍帶血染色體核型分析) | *Chinese Journal of Eugenics and Genetics*, (2020, Volume 28, Issue 4) (《中國優生與遺傳雜誌》2020年第28卷第4期) | The National Health Commission (國家衛生健康委員會) | April 25, 2020 |
| Analysis and Research of Anti-Müllerian Hormone Detection on Ovarian Function in Patients after Hysterectomy (抗苗勒氏管激素檢測對子宮切除術後患者卵巢功能的分析研究) | *Medicine and Health* (February 2020) (《醫藥衛生》2020年2月刊) | – | February 1, 2020 |

## SALES OF MEDICAL PRODUCTS

Aiming to provide well-rounded services to our customers, and as a supplement to our ICL business, we started to sell medical products to our own laboratories and third-party customers, primarily medical institutions in 2010. We primarily procure testing instruments, reagents and consumables from internationally and domestically reputable brands. During the Track Record Period, revenues generated from sales of medical products amounted to RMB228.5 million, RMB234.7 million and RMB459.9 million in 2020, 2021 and 2022, respectively, representing 8.3%, 6.9% and 9.5% of our total revenues in the same years, respectively. As part of our quality assurance effort, we deploy extensive screenings and stringent due diligence initiatives to selectively engage only industry-leading and trustworthy suppliers. We normally enter into agreements with suppliers for reagents and consumables with terms ranging from one to two years, and we enter into agreements with suppliers for instruments normally on a single order basis.

## PRICING

Pursuant to the Opinions on Promoting Further Reform of the Healthcare System (《中共中央、國務院關於深化醫藥衛生體制改革的意見》), the PRC government and its local counterparts set the benchmark for the price of certain of our testing services. For such services with benchmark prices, our prices are tied to the price benchmark with adjustment made to competitors' pricing, our production costs and service premiums. We may also adjust our testing item pricings from time to time to respond to market demand as well as our competitor's pricing strategy. For our testing services that do not have the benchmark price, we determine preliminary prices with reference to prices of competitors' products and our production costs, off which we will give our partner hospitals respective discounts in light of their different size, ranking and competitiveness, as well as historical transaction track record with us. We generally are able to charge a more premier price for testing services that are not benchmark controlled. The price of our clinical services provided to CROs, pharmaceutical companies, research institutes and other non-hospital customers are made on a case-by-case basis, taking into account the cost and size of the research programs and the size, competitiveness or the budget of our customers.

## IMPACT OF COVID-19 ON OUR BUSINESS

Since late December 2019, the COVID-19 outbreak disrupted the normal life and daily routine of the global population, and in amidst of this global pandemic, the performance of and access to many of our testing services were disrupted. As a result, our business, operations and financial conditions were affected.

### Impact on Testing Volume

In response to the COVID-19 pandemic, the Chinese government imposed a series of measures to contain its spread, including travel bans, quarantine measures, social distancing, restrictions on business operations and freedom of movement. Such measures had resulted in, among others, a significant reduction in patients' hospital visits, cancellation of elective medical procedures and decrease in routine health checks, which caused a material decline in our base testing volume in the first quarter of 2020 as compared to the same period in 2019. In addition, with the outbreak of COVID-19, many hospitals in China allocated significant resources to contain the spread of COVID-19, and had scaled back or postponed non-emergency care, which also led to a significant decline in demand for testing services.

Notwithstanding the above, COVID-19 also provided national ICLs with new opportunities. In February 2020, Meetings of the Central Leading Group for COVID-19 Containment allowed qualified third party testing service providers, like us, to carry out COVID-19 nucleic acid tests. Leveraging our testing capabilities and national laboratory network, we quickly mobilized our teams across multiple fronts to develop COVID-19 testing capacities and protocols across our laboratories. We launched nucleic acid testing capability using PCR methods, and immuno-based detection tests. We started to offer COVID-19 testing services in February 2020, and soon turned it into a regular line of service. During the Track Record Period, we performed a total of over 133 million COVID-19 tests, with a daily capacity of up to approximately 996,000 tests. Revenues generated from COVID-19 tests amounted to RMB924.5 million, RMB1,232.4 million and RMB2,284.6 million in 2020, 2021 and 2022, respectively.

Our strong performance for COVID-19 testing during the pandemic validated our capabilities to process large amount of testing volume with high quality and operating efficiency. Leveraging such opportunity, we have successfully built up new business relationships with hospitals and health check centers that did not partner with us before, expanded our cooperation with them beyond COVID-19 tests, and turned them into our regular customers for base tests, which further drove the growth of our non-COVID-19 business. As a result, our total non-COVID business experienced strong recovery in 2020, evidenced by a 5.1% revenue growth from 2019 to 2020. By the end of the second quarter of 2020, our monthly non-COVID-19 business revenues had recovered back to 2019 levels. Starting from the third quarter of 2020, our non-COVID-19 business registered positive growth compared to the same period in previous year. As a result, revenues generated by

non-COVID business increased by 18.2% from 2020 to 2021, and further by 20.0% from 2021 to 2022. Our Directors believe that, with our continuous focus on further strengthening our testing capabilities and portfolio, strategically penetrating untapped markets, developing new testing methods and applying innovative technologies, our business is expected to grow further.

The following table sets forth a breakdown of our revenues by COVID-19 testing and non-COVID-19 business during the Track Record Period:

| | For the Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | 2021 | | 2022 | |
| | RMB | % | RMB | % | RMB | % |
| | (RMB in thousands, except for percentages) | | | | | |
| Non-COVID-19 business | 1,817,195 | 66.3 | 2,147,080 | 63.5 | 2,576,057 | 53.0 |
| COVID-19 testing | 924,536 | 33.7 | 1,232,435 | 36.5 | 2,284,556 | 47.0 |
| **Total** | **2,741,731** | **100.0** | **3,379,515** | **100.0** | **4,860,613** | **100.0** |

In December 2022, Chinese government began to lift most of the COVID-19 related restrictions, and canceled mass testings previously implemented in various regions across the country. This had reduced the need for our COVID-19 related testing services nationwide and is expected to result in significant decline in revenues generated from such services in the future. The extent to which the pandemic impacts our results of operations going forward will depend on future developments which are uncertain and unpredictable. With respect to related risks, please see "Risk Factors – Risks Relating to Our Business and Industry – Revenues generated from COVID-19 related testing services may not be sustainable."

**Impact on Daily Operations**

In response to Chinese government's policies to contain the spread of the COVID-19, in early 2020, we implemented temporary adjustments to work schedules and travel plans, mandating employees to work from home and collaborate remotely. We had incurred additional costs for the safety of our employees and the continuity of our operations, including increased frequency of deep cleaning and sanitation at each of our laboratory, additional safety training and processes, enhanced hygiene practices and materials, more efforts in keeping track of the travel history and the health of our employees and their immediate family members, flexible and remote working where possible, and allowing for greater social distancing for the employees who must work on-site. In addition, we had also provided our logistics team with masks, hand sanitizers and other protective gear immediately after the outbreak, which increased and may continue to increase costs and expenses of our operations. As of the Latest Practicable Date, all of our employees had returned to work.

In addition, dual impact of the massive upsurge of the COVID-19 testing demand as well as logistics disruptions caused by the pandemic, led to a shortage of supplies of reagents and other raw materials dictating the course of COVID-19 testing services, resulting in a leap in the prices of the raw materials. As a result, we experienced temporary difficulties in securing adequate supplies of reagents and consumables used in COVID-19 tests at the beginning of the outbreak.

Our management had been and continue to closely monitoring the impact of COVID-19 on all material aspects of our business operation and respond to any challenges and opportunities the pandemic may bring about. Due to the unpredictability of the duration and impact of the current COVID-19 pandemic, the extent to which the COVID-19 pandemic will have a material effect on our business, results of operations or financial condition is uncertain. For details, please see "Risk Factors – Risks Relating to Our Business and Industry – The COVID-19 pandemic had and may continue to have material impacts on our business, results of operations and financial performance".

## OUR TECHNOLOGY AND IT INFRASTRUCTURE

We are committed to developing proprietary information technology systems to support the daily operation of our laboratories. We have a proprietary and industry-leading information system, namely, Laboratory Information System, or LIS, which are responsible for tremendous operational efficiencies, enabling us to achieve consistent, structured, and standardized operating results and superior customer service. It is extensively used in all aspects of our business, including clinical testing, test ordering and reporting, billing, customer service, logistics and management of medical data. LIS is responsible for the receipt and processing of sample testing application information, patient information and the pre-processing of samples, including sample verification and management. After the samples enter our laboratories, LIS is also responsible for a series of functions related to testing, including among others, the grouping of samples, test report generation, abnormal testing results alerts, and data classification and storage. We also built in ISO15189 requirements into LIS to conduct review on our reports with global quality standards.

We developed our proprietary logistics IT system, AiLogistics (艾物流), which digitalized and automated the sample receipt process through mobile digital and AI recognition technologies. Sample information is processed beforehand through AiLogistics, which reduced the time needed for sample requisition process, prevented errors when processing sample information, thereby enhancing our laboratory operational efficiencies.

The successful delivery of our services depends, in part, on the continued and uninterrupted performance of our IT systems and standardization of the operating processes across our laboratory network through our IT systems. After over a decade of research and development and upgrades, our proprietary systems are able to support our ever scaling business operation. Currently, our systems stored and managed over 10 billion accumulative laboratory testing data and results, which we believe are great assets for our future growth and development.

We have developed effective operating procedures, protocols and standards to fulfill high industry standards with respect to daily operation, maintenance, troubleshooting, backup and disaster recovery with respective to our IT infrastructure.

### Data Security

Data security is one of our top priorities. Securing personal and health information is critical to our business operations and to future growth, as we are committed to using technology to improve the delivery of care. A security breach could have a material adverse operational, financial, regulatory, and reputational impact to us.

We are informed by our customers that they are duly authorized by their patients or research participants to grant us the access and use of their personal data, and we are entitled to collect a minimum amount of personal information that is necessary for us to perform our testing services. Unless otherwise permitted by laws and regulations, we inform our patients of the purposes, method and scope of our collection, use and storage of their personal and health information. We strictly prohibit disclosing or reusing patients' personal data without their prior consent.

To protect data privacy, we employ a secure technology framework that covers laboratory devices, computers, and communications systems. We use state-of-the art tools and advanced analytics to proactively identify and protect against potential information system disruptions and breaches, to monitor, test and secure key networks and services, and to facilitate prompt resumption of operations if a system disruption or interruption should occur. We perform periodic security audit against our systems to ensure its proper function and minimize potential risks. Coupled with the technologies we have in place and to further safeguard our data security, we have implemented comprehensive policies and procedures to preserve and manage all patient information in compliance with relevant laws and regulations. Our internal policies and procedures administer various scenarios including network and system securities, data center security, organization

management, cybersecurity emergency preparedness and response, as well as complaint and reporting. We have formed an information security management team to overlook the formulation, modification, and abolition of our cybersecurity and data privacy related policies and procedures. Our employees must obtain relevant authorization before they are allowed any access to the minimum amount of personal and health information that is necessary for their performance of duties. We also request our employees to report any incidents in violation of our data protection requirements. Externally, we follow protocols for evaluating the cybersecurity status of any vendor or third-party that will have access to our data or information technology systems. We monitor and keep track of the information security incidents, changed requests and other abnormalities during our interaction with these third-parties, and enforce information security assessments on a periodic basis. During the Track Record Period, we have not experienced cyber breaches or interruptions to our systems and data.

## INTELLECTUAL PROPERTY

Intellectual property rights are essential to our business, and we devote significant time and resources to their development and protection. As of the Latest Practicable Date, we owned 214 patents, 119 registered trademarks, 315 registered software copyrights and 32 registered domain names in China. We believe, however, that no single patent, technology, trademark, intellectual property asset, or license is material to our business as a whole. Our approach is to manage our intellectual property assets, to safeguard them and to maximize their value to our enterprise. We actively defend our important intellectual property assets and pursue protection of our products, processes and other intellectual property where possible.

During the Track Record Period, we did not find any of such breaches of our intellectual property rights. However, unauthorized use of our intellectual property by third parties and the expenses incurred in protecting our intellectual property rights from such unauthorized use may adversely affect our business and results of operations. See "Risk Factors – Risks Relating to Our Business and Industry – We may not be able to obtain, maintain, or enforce our intellectual property rights and may be subject to intellectual property litigations that could adversely impact our business." We did not have any material disputes or any other pending legal proceedings of intellectual property rights with third parties during the Track Record Period and up to the Latest Practicable Date.

## SEASONALITY

Our business is subject to seasonal fluctuations. Our testing volume generally declines in January and February due to lower patient flow and decreasing needs for health checks during the Chinese New Year holiday. Declines in testing volume reduce revenues, operating margins and cash flows.

## AWARDS AND RECOGNITIONS

The following table sets forth some of our major awards and recognitions during the Track Record Period and up to the Latest Practicable Date.

| Name of Subsidiary | Award/Recognition | Issuing Entity | Year of Receipt |
|---|---|---|---|
| Nanchang Adicon... | "Specialized, Refined, Distinctive and Novel" Enterprise of Jiangxi Province (江西省專精特新企業) | Department of Industry and Information Technology Jiangxi Province (江西省工業和信息化廳) | 2022 |
| Zhengzhou Adicon.. | Excellent Anti-epidemic Entity (抗疫先進單位) | Social Affairs Bureau of Zhengzhou Economic and Technological Development Zone (鄭州市經濟技術開發區社會事業局) | 2021 |
| Shanghai Adicon ... | "Specialized, Refined, Distinctive and Novel" Enterprise of Shanghai (2021年度上海市專精特新企業) | Shanghai Municipal Commission of Economy and Informatization (上海市經濟和信息化文員會) | 2021 |
| | Pilot Enterprise of National Standard for Standardization of Drug Cold Chain Logistics Operation (藥品冷鏈物流運作規範國家標準試點企業) | China Federation of Logistics and Purchasing Pharmaceutical Logistics Division (中國物流與採購聯合會醫藥物流分會) | 2020 |
| Jinan Adicon..... | Enterprise Technology Center Recognized by Jinan Municipal Government (濟南市認定企業技術中心) | Bureau of Industry and Information Technology of Jinan (濟南市工業和信息化局) | 2020 |
| | Outstanding Innovation Achievement Certificate for Enterprises in Shandong (山東省企業優秀創新成果證書(一等獎)) | Shandong Small and Medium-sized Enterprises Development and Promotion Center/Shandong Industry and Information Innovation Achievement Evaluation Expert Committee (山東省中小企業發展促進中心/山東省工業和信息化創新成果評價評估專家委員會) | 2020 |
| Wuhan Adicon ..... | (2020年抗擊新冠肺炎疫情優秀企業) | High Tech Enterprises Association of Jianghan District, Wuhan (武漢市江漢區高新技術企業協會) | 2020 |
| Shenyang Adicon... | Recognition of Excellence (優秀達標單位) | Shenyang Health Workers Association (瀋陽市衛生工作者協會) | 2020 |
| Chongqing Adicon.. | Anti-epidemic Testing Pioneer Group (抗疫檢驗先鋒團隊) | Chongqing Clinical Laboratory Center (重慶市臨床檢驗中心) | 2020 |

## COMPETITION

We expect competition in the ICL industry in China to intensify. Our major competitors are other ICL service providers with national network. See "Industry Overview – Overview of the ICL Market in China – Competitive Landscape" for a detailed description on the competitive landscape in our industry.

## TOP CUSTOMERS AND SUPPLIERS

### Top Customers

Customers of our ICL business are mainly medical institutions (which include public hospitals, community health centers, private hospitals and clinics, and health check centers), pharmaceutical companies and CROs. Our health check center customers can be grouped under four individual chain health check providers, some of which are wholly owned by the chain health check providers and others are affiliated. We enter into cooperation agreements with individual health check centers as opposed to the chain health check providers, with which we enter into framework agreement. See "– Our ICL Customers – Health Check Center" for details. We sell medical products mainly to medical institutions. In 2020, 2021 and 2022, our five largest customers together generated RMB114.3 million, RMB164.4 million and RMB321.6 million of revenues, accounting for approximately 4.3%, 4.8% and 6.6% of our total revenues in the same periods, respectively. All of our five largest customers are Independent Third Parties during the Track Record Period. To the best of our knowledge and as of the Latest Practicable Date, we were not aware of any information or arrangement that would lead to the termination of our relationships with any of our major customers. None of our Directors and their respective associates, or Shareholders who own 5% or more of the total issued Shares had an interest in any of our Group's five largest customers during the Track Record Period.

### Top Suppliers

Our suppliers primarily consist of our suppliers for equipment, reagent and other consumable material for testing. We consider several factors in the evaluation and selection of suppliers, including but not limited to the supplier's background, reputation, and industry experience, and most importantly the quality and price of their supplies. All new suppliers must go through our internal supplier admission process before entering into supply agreements with us. Some of them are subject to an onsite inspection conducted by us on their production plants on an as-needed basis to evaluate the production processes and quality management and test the raw material and packaging material samples.

In 2020, 2021 and 2022, purchases from our five largest suppliers were RMB510.8 million, RMB427.2 million and RMB718.0 million, representing 43.1%, 28.1% and 35.6% of our total purchases, respectively. Purchases from the single largest supplier of each respective period in 2020, 2021 and 2022, were RMB150.1 million, RMB99.9 million and RMB203.6 million, representing 12.7%, 6.6% and 10.1% of total purchases, respectively. We believe that adequate alternative sources for such supplies exist and we have developed alternative sourcing strategies for these supplies. We normally settle our payment with these suppliers through bank transfer.

The following table sets forth the details of our five largest suppliers during the Track Record Period.

| Rank | Supplier | Type of products/ services provided | Principal business | Listing Status[1] | Credit Period | Year of commencement of business relationship | Purchase amount | Percentage of our total purchase |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | (RMB'000) | |
| ***For the year ended December 31, 2020*** | | | | | | | | |
| 1 | Company F | Testing equipment, reagents and consumables | Research, development and sales of medical instruments and related reagents | Listed | 60 days | 2012 | 150,110 | 12.7% |
| 2 | Company A | Reagents and consumables | Sales of medical instruments and reagents | Listed | 90 days | 2014 | 145,854 | 12.3% |
| 3 | Company B | Reagents and consumables | Research, development and sales of medical instruments and related reagents | Private | 60 days | 2004 | 107,899 | 9.1% |
| 4 | Company G | Testing equipment | Sales of medical instruments | Listed | 30 days | 2010 | 69,684 | 5.9% |
| 5 | Company H | Reagents and consumables | Sales of medical instruments and reagents | Listed | 90 days | 2013 | 37,224 | 3.1% |
| ***For the year ended December 31, 2021*** | | | | | | | | |
| 1 | Company I | Reagents and consumables | Research, development and sales of medical instruments and related reagents | Listed | 90 days | 2020 | 99,860 | 6.6% |
| 2 | Company B | Reagents and consumables | Research, development and sales of medical instruments and related reagents | Private | 60 days | 2004 | 99,668 | 6.5% |
| 3 | Company J | Reagents and consumables | Research, development and sales of medical instruments and related reagents | Listed | 90 days | 2020 | 76,399 | 5.0% |
| 4 | Company A | Reagents and consumables | Sales of medical instruments and reagents | Listed | 90 days | 2014 | 75,841 | 5.0% |
| 5 | Company F | Testing equipment, reagents and consumables | Research, development and sales of medical instruments and related reagents | Listed | 90 days | 2012 | 75,418 | 5.0% |
| ***For the year ended December 31, 2022*** | | | | | | | | |
| 1 | Company I | Reagents and consumables | Research, development and sales of medical instruments and related reagents | Listed | 90 days | 2020 | 203,616 | 10.1% |
| 2 | Company F | Testing equipment, reagents and consumables | Research, development and sales of medical instruments and related reagents | Listed | 90 days | 2012 | 155,566 | 7.7% |
| 3 | Company M | Testing equipments | Sales of medical instruments | Private | 30 days | 2010 | 146,717 | 7.3% |
| 4 | Company J | Reagents and consumables | Research, development and sales of medical instruments and related reagents | Listed | 90 days | 2020 | 133,169 | 6.6% |
| 5 | Company B | Reagents and consumables | Research, development and sales of medical instruments and related reagents | Private | 60 days | 2004 | 78,915 | 3.9% |

*Note:*

(1) A supplier is marked as "listed" if its group company is publicly listed on a recognized stock exchange.

We and ACON Biotech (Hangzhou) Company Limited (艾康生物技術(杭州)有限公司) ("**ACON**") entered into a purchase and equipment lease framework agreement (the "**Purchase and Equipment Lease Framework Agreement**") pursuant to which we agreed to purchase certain testing equipment and reagents from, and to lease certain testing equipment from, ACON from time to time in our ordinary course of business. ACON is currently indirectly owned as to 50% by Mr. LIN Jixun (our founder and one of our non-executive Directors), and is therefore a connected person of our Company under Rule 14A.07(4) of the Listing Rules. In 2020, 2021 and 2022, the historical fees paid to ACON amounted to RMB107.9 million, RMB102.0 million and RMB78.9 million, representing 9.1%, 6.7% and 3.9% of total purchases, respectively. See "Connected Transactions – Non-Exempt Continuing Connected Transaction." Other than ACON, none of our directors, their respective associates or any of our shareholders holding more than 5% of our issued share capital after the [**REDACTED**], to the knowledge of our directors, held any interests in any of our five largest suppliers during the Track Record Period.

## EMPLOYEES

As of December 31, 2022, we had a total of 6,128 full-time employees. The following table sets forth our employees by functions as of December 31, 2022:

| Function | Number of Employees | % of Total |
|---|---|---|
| Laboratory operation (technical professionals) | 1,992 | 32.5 |
| Laboratory operation (supporting staffs) | 225 | 3.7 |
| Logistics | 1,370 | 22.4 |
| Sales and marketing | 1,551 | 25.3 |
| Research and development | 381 | 6.2 |
| Management and administrative | 609 | 9.9 |
| **Total** | **6,128** | **100.0** |

We believe that maintaining a stable and motivated employee force is critical to the success of our business. We organize various training programs on a regular basis for our employees to enhance their knowledge, to improve time management skills and communications skills, and to strengthen their teamwork spirit. We also provide various incentives to better motivate our employees. We primarily recruit our employees through job fairs, employee referrals, industry referrals and online channels including our corporate website and social networking platforms.

The remuneration package of our employees includes salary, benefits and bonus. Our compensation programs are designed to remunerate our employees based on their performance, measured against specified objective criteria. As required by PRC laws and regulations, we have made contributions to the various mandatory social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance and maternity leave insurance, and to mandatory housing provident funds, for or on behalf of our employees. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any strikes or labor disputes that had any material adverse effect to our operations.

## INSURANCE

In line with industry practices, we maintain a variety insurance for our business operation, including medical liability insurance policies for a limited number of esoteric tests (for example, non-invasive prenatal testing), auto insurance, property insurance and employer's liability insurance and COVID-19 insurance for employees.

Our Directors believe that our insurance coverage is adequate and in line with industry norm. However, the risks related to our business and operations may not be fully covered by insurance. Please see "Risk Factors – Risks Relating to Our Business and Industry – Our insurance may not sufficiently cover, or may not cover at all, losses and liabilities we may encounter during the ordinary course of operation."

## PROPERTIES

As of the Latest Practicable Date, we did not own any real property for our operations and we entered into 43 lease agreements for premises across different regions for our current business operations in the PRC. Our leased properties are primarily used as premises for our operating laboratories and offices. The relevant lease agreements generally provide a duration ranging from five to ten years, some with renewal options. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules.

As of the Latest Practicable Date, the landlords of five of our leased properties in Hangzhou, Changchun, Qingdao, Harbin and Xiamen, did not provide valid title certificates of the relevant leased properties to us. The leased property in Hangzhou is used for our offices, and the remaining four are used for our laboratories. Revenues generated from the concerned laboratories accounted for 4.3%, 5.3% and 5.7% of our total revenues in 2020, 2021 and 2022, respectively. In addition, the landlords of the leased properties used as warehouse and laboratory operation by our newly acquired laboratory in Henan also failed to provide relevant valid title certificates.

As advised by our PRC Legal Advisor, lack of valid title certificates does not inevitably affect the validity of the relevant lease agreements we entered into, and it is the landlords' responsibilities to obtain the valid title certificates, and therefore, as a tenant, we will not be subject to any administrative punishment or penalties in this regard. The lessors may be subject to challenges, lawsuits or other actions taken against the properties leased by us. If the lessors' rights with respect to any of such properties were successfully challenged, we may be forced to relocate our operations on the affected properties. We have obtained confirmation from the competent government authorities for all of the relevant properties, which have confirmed that our laboratories have not violated any applicable laws or regulations, or been subject to any administrative punishment or penalties during the Track Record Period, or the risk of forced relocation is remote.

As of the Latest Practicable Date, we leased one property each in Jinan and Kunming as our laboratories from the landlords who obtained these parcel of land by way of government allocation, and the landlords of these properties did not obtain approval from local competent land and housing administrative authorities for the lease of land as requested by applicable regulations. Revenues generated from these laboratories accounted for 6.9%, 5.6% and 4.8% of our total revenues in 2020, 2021 and 2022, respectively.

Pursuant to the Provisional Regulations of the People's Republic of China Concerning the Grant and Assignment of the Right to Use State-owned Land in Urban Areas (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》), lease of any property built on allocated land should be approved by local competent land and housing administrative authorities. According to consultations with the competent government authorities, according to the local practice in Tianqiao District of Jinan and Wuhua District of Kunming, and as advised by our PRC Legal Advisor, we, as the tenant, will not be subject to administrative penalties as a result of leasing properties on an allocated land. The landlords of Jinan Adicon and Yunnan Adicon may be subject to challenges, lawsuits or other actions taken against the properties leased by us. If the landlords' rights with respect to such properties were successfully challenged, we may be forced to relocate our operations in Jinan and Yunnan. We have obtained confirmation from the Natural Resources and Planning Bureau of Jinan and Wuhua District of Kunming and the Housing and Urban-Rural Development Bureau of Tianqiao District of Jinan and Kunming, being the competent government authorities that, no approval is required in practice for the lease of premises built on the allocated land in Tianqiao District of Jinan and Wuhua District of Kunming. Furthermore, the landlords of the relevant properties have agreed to indemnify the damages or losses that Jinan Adicon and Yunnan Adicon may suffer due to the lack of government approval for the lease of allocated land.

As of the Latest Practicable Date, the actual land use of the properties leased for our laboratories is inconsistent with the designated land use as specified in their land use right certificates. As of the Latest Practicable Date, one of our laboratories is located on land for commercial use, one of our laboratories is located on land for warehousing use, two of our laboratories are located on land for scientific study and educational use, one of our laboratories is located on construction land without specific use restrictions, one of our laboratories is located on land to be used as general plants for biology, medical and pharmaceutical industry and the rest of our operating laboratories are located on land for industrial use. The following table sets forth the related details.

| | |
|---|---|
| **Causes of Inconsistencies** | The inconsistent land use is primarily due to the limited land available for medical purposes. In practice, medical land is mainly allocated or granted to non-profit medical institutions. In recent years, to promote the development of socially-run medical institutions, medical land may also be granted to certain qualified large-scale for-profit hospitals or specialized medical parks in some regions intended to be utilized by large hospitals based on local regulations or practices. However, it is still difficult for small-scale for-profit medical institutions which mainly use leased properties for operations (such as independent clinical laboratories and clinics) to find suitable premises on medical land for their operation. This results in a large number of non-hospital for-profit medical institutions using non-medical properties in practice. |
| **Risk Associated and PRC Legal Advisor's Assessments on Potential Legal Consequences and Liabilities** | Pursuant to the Civil Code of the PRC (《中華人民共和國民法典》), the Law on the Administration of Urban Real Estate of the PRC (《中華人民共和國城市房地產管理法》), the Land Administration Law of the PRC (《中華人民共和國土地管理法》) and other relevant laws and regulations, any change in the use of land within an urban planning area shall be approved by the competent land and natural resources administration authorities and submitted to the competent authority that originally approved the land use for approval.<br><br>As advised by our PRC Legal Advisor, if the use of a premise is inconsistent with the approved purpose of the state-owned land where the premise locates and deemed by competent natural resources and planning bureaus as a violation of applicable land related laws and regulations, the landlords of properties will be required to rectify the noncompliance, imposed on a penalty ranging from RMB100 to RMB500 per square meter of the concerned land and even be ordered to return the land if the noncompliance could not be rectified within a required time period. As a tenant, we will not be subject to the aforesaid administrative penalties. However, if a landlord of the properties for our leases is required by competent authorities to rectify such land use or return the land, we may have to relocate and bear relocation costs. We may not be able to find other suitable property to lease for our laboratory testing facility in a timely manner or at all, which may affect our future business operations. |

| | |
|---|---|
| **Rectification Actions Taken** | In light of the above, we have obtained confirmation from relevant natural resources and planning bureaus at provincial level, municipal or county level for all of our operating laboratories, and based on such confirmation, (i) the use of the leased properties for laboratory operations is subject to review and approval by competent local NHCs, and no approval from natural resources and planning bureaus is required, and (ii) the likelihood of our operating laboratories being deemed as violating applicable land related laws and regulations due to inconsistent land use and then be ordered to relocate is remote. All of our laboratories have obtained Medical Institution Practicing Licenses and the relevant leases were duly reviewed and approved by competent local NHCs in accordance with applicable rules and regulations during the application of the licenses.<br><br>Based on the forgoing, our PRC Legal Advisor is of the view that the risk of our laboratories being forced to relocate due to inconsistent land use is remote. |
| **Internal Control Measures** | We have formulated a laboratory establishment manual and a standardized laboratory site selection checklist covering all material aspects including title certificate, property ownership, land use specifications and mortgage status, so as to guide responsible personnel in selecting sites when setting up a new laboratory. For details of enhanced internal control measures we have taken, please see "– Properties – Enhanced Internal Control Measures." Moreover, we plan to enhance our due diligence efforts and review more prudently when we lease additional premises, particularly on the nature, designated use and title certificates for such properties, and submit all leases to our legal department for their compliance review and approval before entering into lease agreement with the lessors. |

For associated risks of the above mentioned defects, please see "Risk Factors – Risks Relating to Our Business and Industry – Certain of our leased properties are subject to land defects, and we could be required to vacate such properties which may adversely affect our business, financial condition and results of operations."

Since our inception and up to the Latest Practicable Date, we were not subject to any action, claim, fine or investigation being conducted or threatened by any third parties or the competent government authorities with respect to the above mentioned leased properties. Based on the confirmation we obtained from competent government authorities, and as advised by our PRC Legal Advisor, our Directors believe that the properties with defects described above did not and will not, individually or in the aggregate, have a material adverse effect on our business or results of operation, and the risk of us being required to vacate or relocate is remote. Furthermore, we undertake that we will (i) closely monitor the regulatory development associated with the use of land in China, (ii) take necessary actions to be in compliance with applicable local laws and regulations, (iii) use reasonable efforts to seek assurances from competent authorities to confirm that the land chosen for future new laboratories' will be compliant with applicable laws and regulations, and (iv) disclose in periodical reports once we become a [**REDACTED**].

Having considered the view of the Directors and based on the due diligence work conducted, including discussing with the PRC legal advisors to the Company and the Joint Sponsors, having reviewed the confirmations from, and the notes taken by the PRC legal advisors to the Company and the Joint Sponsors during oral interviews with, the relevant natural resources and planning bureaus at provincial level or, where necessary, relevant municipal or county level, nothing has come to the Joint Sponsors' attention that would reasonably cause them to cast doubt on the reasonableness of the view of the Directors that the risk of forced relocation is remote.

In the unlikely scenario if we were required to vacate the properties, our Directors are of the view that it would not have a material adverse effect on our business or results of operations. Typically it takes approximately six months to prepare a new laboratory in an established market. If we were forced to relocate without prior notice, we would be able to transit testing volume and move equipment to nearby laboratories within our network within three weeks while we set up a new laboratory. Based on the gross floor area of a typical laboratory of ours, total relocation costs for a laboratory is estimated to be no more than RMB3.0 million incremental costs, primarily taking into consideration of the courier costs for temporary sample transportation, equipment shipment costs, and relocation expenses.

**Lease Registration**

As of the Latest Practicable Date, we had not completed lease registration for 11 of the properties we leased in the PRC, primarily due to the difficulty of procuring the relevant landlords' cooperation to register such leases. As advised by our PRC Legal Advisor, failure to register such lease agreements with the relevant PRC government authorities does not affect the validity and enforceability of the relevant lease agreements but the relevant PRC government authorities may order us or the lessors to, within a prescribed time limit, register the lease agreements. Our Directors are of the view that the unregistered leases will not individually or collectively have a material adverse impact on our business or financial condition because, as confirmed by our PRC Legal Advisor, the estimated aggregate maximum penalty is RMB110,000 with respect to the unregistered leases of properties leased by our Group. Also, we are not subject to any action, claim or investigation being conducted or threatened by any third parties or the competent government authorities with respect to the registration in our leased properties as of the Latest Practicable Date.

According to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L), this Document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which require a valuation report with respect to all of our Group's interests in land or buildings, for the reason that, as of December 31, 2022, none of the properties held or leased by us had a carrying amount of 15% or more of our consolidated total assets.

**Enhanced Internal Control Measures**

We also implemented enhanced laboratory site selection policies, pursuant to which our legal department shall review the lease agreements together with a standardized laboratory site selection checklist covering all material compliance aspects including title certificate, property ownership, land use specifications, mortgage status, and the ability to obtain approval on the environmental impact form prior to laboratory operation. We will organize training programs for the relevant project managers to familiarize them with our site selection manual and more importantly, applicable laws, regulations and local policies, which enable them to identify and collect sufficient and valid licenses, certificates and other relevant documents for each type of properties during the site selection process. The legal team will then review and verify the completeness and authenticity of such documents collected, and perform assessment on the compliance status of a potential new premise. The project managers shall also seek written indemnification from the lessor when selecting new premises. The corresponding departments at our headquarters shall monitor and review the procedures conducted by the relevant local departments and re-ensure the completeness

and authenticity of all the licenses, certificates and other relevant documents. We will consult with our external legal counsel to review the title certificates and other documents to ensure the compliance with all relevant laws and regulations. We will ensure the land use of our future ICLs are compliant with the applicable regulations by, including but not limited to, seeking for prior assurances from competent authorities.

Having considered the internal controls adopted by the Company above and based on the due diligence work conducted, including but not limited to reviewing the Group's internal policies on site-selection of laboratories with the help of an independent internal control advisor, discussing with the Company to understand the revisions made to the Company's site-selection policies and procedures, nothing has come to the Joint Sponsors' attention that would reasonably cause them to cast doubt on the effectiveness of the enhanced internal controls mentioned above.

Our Directors believe that leased properties issues described above will not impugn on the Directors' suitability under Rules 3.08 and 3.09, for the following reasons: (i) the current urban land use planning in China makes it difficult for the Company to find suitable medical land, and the Company's current practices in selecting premises to set up laboratories are in line with market practices, (ii) during the Track Record Period and up to the Latest Practicable Date, the Company has not been subject to any action, claim, fine or investigation being conducted or threatened by any third parties or the competent government authorities with respect to the above mentioned leased properties, (iii) the Company has taken sufficient rectification actions by obtaining positive confirmations from competent government authorities with respect to each of the above mentioned leased properties, (iv) the Company's PRC Legal Advisor is of the view that issues with respect to the Company's leased properties, individually or in the aggregate, did not and will not have a material adverse effect on the Company's business operations, and (v) the Company have implemented enhanced internal control measures aiming to minimize reoccurrence risks in the future, and it undertakes to continue to work on compliance issues with respect to their business operations.

Having considered the plans of the Group above and based on the following due diligence steps, nothing has come to the Joint Sponsors' attention that would reasonably cause them to cast doubt on the Directors' suitability under Rule 3.08 and 3.09 of the Listing Rules: (i) reviewed the Group's internal policies on site-selection of laboratories with the help of an independent internal control advisor, discussing with the Company to understand the revisions made to their site-selection policies and procedures; (ii) interviewed with the management and the chief compliance officer of the Company and understood that, among others, the chief compliance officer of the Company is set to be under the supervision of the Board and to overview the Group's compliance work since October 2018; (iii) interviewed with the management of the Company and understood that, among others, (a) the executive Director has discussed with the Company's legal advisors to understand and evaluate the risks relating to the Leased Labs and (b) continuous efforts have been made to improve the Company's internal policies over site-selection of laboratories; and (iv) interviewed with each Director to understand their education background, working experience and professional qualifications and understood their knowledge to serve as directors of [**REDACTED**].

## HEALTH, SAFETY AND ENVIRONMENTAL MATTERS AND CORPORATE SOCIAL RESPONSIBILITY

We strive to operate our facilities in a manner that protects the environment and the health and safety of our employees and communities. If we fail to comply with environmental protection and health and safety laws and regulations, we may be subject to fines, monetary damages or suspensions of our business operations. In the event of any accidental contamination, biological hazards or personal injury at our facilities during normal operations, we could be held liable for damages and clean-up costs that, to the extent not covered by existing insurance or indemnification, could be burdensome to our business. For details, see "Risk Factors – Risks Relating to Our Business and Industry – We are subject to environmental, health and safety laws and regulations. If we fail to comply with such regulations, our business may be adversely impacted".

We have implemented a number of company-wide measures to ensure compliance with the stringent regulatory requirements and standard operating procedures relating to emissions of air, water and other materials, bio-waste generation and treatment, handling, use, storage, treatment and disposal of hazardous substances, worker health and safety requirements, and emergency planning and response. When selecting leased properties for our laboratory sites, we carefully review their environmental and safety qualifications, and assess relevant risks with regard to fire control and sewage, pollutants and waste discharge to ensure the compliance of relevant requirements under applicable laws and regulations. We have dedicated biosafety experts responsible for biosafety training, compliance of our operations with biosafety-related legal requirements, biosafety risk assessment and review of corrective actions and preventative actions that we will take upon the occurrence of any biosafety emergency. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material accidents involving personal injury or property damages. Additionally, we were not subject to any material claims, lawsuits, penalties, compensations or disciplinary actions as a result of any material accidents and were in compliance with the relevant occupational health and safety laws and regulations.

To ensure timely identification and proper assessment and management of environment-related risks and social sustainability risks, we have formulated an effective internal organizational structure. Our environmental health and safety ("**EHS**") department is in charge of the occupational health, safe production as well as environmental protection and waste reduce. Alongside with the EHS department, our internal audit department supervises the regulatory compliance of our operations, including following developments in environmental laws, regulations and related interpretations and identifying environment-related risks. Both EHS and internal audit teams make report to our chief compliance officer on a regular basis. Our chief compliance officer, Ms. LAN Jia, overlooks the overall management and assessment of environment-related risks and incidents, and makes periodic reports to the executive committee and senior management on our overall EHS performance and sustainability status. See "– Incidents – Incidents Relating To Bribery – Remedial actions taken by the Company following the Incidents – Implementation of Anti-corruption Policies and Procedures" for details of the background and qualification of our chief compliance officer. We familiarize our employees of EHS, biosecurity and compliance requirements through comprehensive and in-depth trainings on both Company and department levels. To ensure smooth internal communication, we encourage our employees to make ad hoc reports to relevant departments upon their identification of any emergency or red flag, or to the manager, chief compliance officer, and subsequently the chief executive officer or the Board, depending on the nature of the event.

In line with related regulatory requirements, we have put in place specific metrics and targets to assess and manage the environmental and social sustainability risks. We are subject to unannounced inspections from competent government authorities on our biosafety, waste and disposal. In addition, our headquarters organizes monthly compliance inspection of our subsidiaries, primarily focusing on the licenses, personnel qualifications, working environment, quality control, and overall operations, and conducts annual audits on each subsidiary, including environmental and biosafety audits.

**Waste Control**

We are subject to certain environmental protection laws and regulations in China. See "Regulatory Overview – Regulations Relating to Environmental Protection". Our operations involve the use of hazardous and flammable chemical materials and disposal of hazardous waste. We take steps to ensure that wastes generated as a result of our operations are properly disposed of in order to reduce adverse effects to the environment.

Our waste control starts early from the site planning stage of our laboratories. We take into consideration environment, social and health requirements prescribed in relevant laws and regulations when planning functional areas of our laboratories to ensure the proper treatment, sterilization and disposal of our medical waste and sewage. We have put in place adequate infrastructure and facilities to ensure effective treatment of our waste and disposal.

Under the guidance of the applicable technical specifications promulgated by relevant government authorities, we have formulated a set of internal waste disposal procedures setting forth detailed guidelines on the classification, collection, transportation and disposal of the waste generated from our laboratories. In accordance with our internal waste disposal procedures, technical professionals of our laboratories are required to make sure all the disposals are properly sanitized and categorized before being collected by our laboratory janitors. Our laboratory janitors will then sort and place such disposals in a designated area, where the disposals will be properly contained, sealed, labeled and timely recorded before further passed to professional third-party service providers we engaged for further processing. During the process, our janitors are required to wear protective gear while handling the waste, and will disinfect the designated area on a regular basis. Before engaging third-party service providers for centralized disposal of our wastes, we closely review and verify their qualification, and we only cooperate with those licensed by relevant authorities. Upon engagement, we record their qualification and the service agreement in our system. The system notifies us in advance of the expiration of their qualification or the terms of the agreement, thereby enabling us to facilitate needed adjustments or renewal of agreements in a timely manner. Our EHS department supervises the emission of exhaust gas and formulates the internal guidelines to be met by each of our laboratories pursuant to applicable laws, regulations and technical specifications. We also invite qualified institutions to deliver periodic training on the emission control and climate impact to relevant personnel on a regular basis.

We enforce strict metrics and targets to assess and manage the waste water and exhaust gas pursuant to the requirements of the national guide to clinical laboratory procedures and the relevant discharge and emission standards for medical institutions. For waste water, we track and record the level of residuals with close attention paid to the containment of infectious substance. For exhaust gas, we establish compliance files for our gas outlets to record the basic statistics including the temperature, volume, types of the main pollutants and the activated carbon replacement timetable, so as to control the emissions and monitor possible climate impact. We also engage qualified institutions to assess and evaluate our emission control performance. In addition, we require our employees to report promptly to relevant health authorities in occurrence of any loss, leakage or diffusion of hazardous waste within 48 hours. Our solid waste primarily consists of disposable protective gear as well as used or contaminated instruments, including bottles and testing tubes, and our liquid waste is primarily liquid that contains solvents and reagents that may be toxic, corrosive, flammable, and/or reactive chemical substances. In 2020, 2021 and 2022, the discharge volume of our solid waste was 1,382.9 tons, 2,210.9 tons and 4,028.9 tons, respectively, and the discharge volume of our liquid waste was 21.1 tons, 34.4 tons and 56.3 tons, respectively, all of which were in line with the increase in the sample volume of our medical diagnostic testing services. During the Track Record Period and up to the Latest Practicable Date, we complied with the relevant environmental laws and regulations in China and had not been subject to any material claims, lawsuits, fines, penalties or disciplinary actions.

**Climate-Related Risks**

Due to our effective internal control and risk management measures as outlined in this section, our business, results of operation and financial condition had not been materially adversely impacted by any climate-related incident during the Track Record Period and up to the Latest Practicable Date. Despite that we don't see climate-related risks affecting our business or financial condition in a short term, it may potentially affect our business and financial condition in medium and long term. Potential transition risk may result from the transitioning to a lower-carbon economy which entails change in climate-related regulations and policies. In a medium term, we may be subject to heightened pollutant discharge policies, which may result in higher operating costs due

to increased cost for pollutant charge, fines and penalties as a result of non-compliance and higher operating costs incurred in connection with investment in new facilities. In a long term, alongside with worldwide initiatives for reducing carbon emissions, we may be subject to higher operational costs or tax burdens.

Our business operations are subject to environmental protection laws and regulations promulgated by the PRC government. For example, we are required by the relevant governmental authorities to carry out an environmental impact assessment before constructing new laboratories to minimize the impact of our business operation on the environment. See "Regulatory Overview – Regulations Relating to Environmental Protection" for details. Maintaining compliance with applicable environmental rules and regulations is costly. During the Track Record Period, we incurred compliance costs in connection with applicable environmental rules and regulations of RMB8.4 million, RMB12.6 million and RMB25.3 million in 2020, 2021 and 2022, respectively. Costs incurred during the Track Record Period in connection with our environmental compliance efforts included environmental impact assessments on new construction projects and expansion projects as well as installation and upgrades of our waste control and treatment facilities in our laboratories to improve the economic benefits of our operation while promoting environmental protection, thereby achieving sustainable growth of our business. For associated risks relating to failure to comply with environmental related laws and regulations, please see "Risk Factors – Risks Relating to Our Business and Industry – We are subject to environmental, health and safety laws and regulations. If we fail to comply with such regulations, our business may be adversely impacted."

Tightened environmental regulations may require significant investment to be made in transforming our business and operations, which may have a material adverse impact on our business, results of operations and financial condition. Our Board and EHS department will evaluate the likelihood of occurrence and the estimated magnitude of resulting impacts over medium and long term horizons. The decision of transfer, accept or control a risk is influenced by various factors such as the laboratory's geographic location, transportation network and policy change. If the risks and opportunities are considered to be material, we will incorporate them into our strategy and financial planning process. We also aim to minimize the transition risk in the long term through enhanced energy efficiency and consumption of renewable energy.

**Environmental Report Form**

As of the Latest Practicable Date, Jinan Adicon failed to obtain the Report Form on Environmental Impact of Construction Project ("**Report Form**") for an expansion area of approximately 890 square meters (the "**Expanded Area**"), due to a limitation of the condition of the leased site. Pursuant to the Environmental Impact Assessment Law of the People's Republic of China (《中華人民共和國環境影響評價法》), the Administrative Regulations on Environmental Protection in Construction Projects (《建設項目環境保護管理條例》) and other applicable rules, failure to obtain the Report Form may subject us to a fine ranging from 1% to 5% of total investment amount of the related construction, which equals RMB9,600 to RMB48,000, or restore to original operating status, by suspending all operations on or the construction of the concerned areas and to only operate on the approved areas.

The Expanded Area is primarily used for warehouse, waste room and to a lesser extent, for testing services, and accounts for approximately 18% of total area of Jinan Adicon. In the case where Jinan Adicon is ordered to suspend operation within the Expanded Area, it may rearrange the site layout to move the facilities on the Expanded Area to the rest of the laboratory. Given that (i) the Expanded Area contributes minimal gross floor area of Jinan Adicon, and (ii) no core business was operated on the Expanded Area, and the operations thereon can be easily rearranged to the rest of the laboratory, our Directors are of the view that, failure to obtain Report Form for the Expanded Area is of no significance to our overall operation, and does not have a material adverse effect on our business or results of operations.

### Corporate Social Responsibility

We are committed to contributing to the welfare of society and sharing our corporate social responsibility. For example, we have made charitable contribution in university educational foundations to support the training, scientific research, international exchanges, materials and equipment procurement, and student scholarships of certain medical subjects. We have also contributed to anti-HPV educational campaign hosted by provincial woman and children's foundation, volunteered free testing services for an assortment of communities, and donated medical supplies to anti-epidemic campaigns against COVID-19.

## LEGAL PROCEEDINGS AND COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any actual or pending legal, arbitration or administrative proceedings, including any bankruptcy or receivership proceedings, that we believe would have a material adverse effect on our business, results of operations, financial condition or reputation. Our Directors are not involved in any actual or threatened claims or litigations. There are no material legal, arbitral or administrative proceedings before any court current or pending against, or involving the properties, or the businesses of our Company or to which any of the properties or members of our Company is subject. However, we may from time to time become a party to various legal, arbitration or administrative proceedings arising in the ordinary course of business.

### Non-Compliance

During the Track Record Period and up to the Latest Practicable Date, we did not have any non-compliance incidents which our Directors believe would, individually or in the aggregate, have a material operational or financial impact on our business as a whole. As advised by our PRC Legal Advisor, unless otherwise disclosed, during the Track Record Period and up to the Latest Practicable Date, we had complied with the applicable PRC laws and regulations in all material respects, except for the non-compliance which would not have a material adverse effect on our business as a whole.

#### *Social insurance and housing provident fund contributions*

During the Track Record Period, some of our PRC subsidiaries engaged third-party human resources agencies to pay social insurance premium and housing provident funds for certain of our employees. Pursuant to the agreements entered into between such third-party human resources agencies and our relevant PRC subsidiaries, the third-party human resources agencies have the obligation to pay social insurance premium and housing provident funds for our relevant employees. These third-party human resources agencies have confirmed in writing that they have paid such contributions in strict compliance with the agreements with us. Pursuant to the PRC laws and regulations, the contributions to social insurance premium and housing provident funds made through third-party accounts may not be viewed as contributions made by us. As of the Latest Practicable Date, neither our Company nor our PRC subsidiaries had received any administrative penalty or labor arbitration application from employees for its agency arrangement with third-party human resources agencies. As of December 31, 2022, our PRC subsidiaries paid contributions to social insurance premium and housing provident funds for seven employees through third party agencies per such employees' written agreements.

Our PRC Legal Advisor has advised us that, pursuant to relevant PRC laws and regulations, if we fail to pay the full amount of social insurance contributions as required, we may be ordered to pay the outstanding social insurance contributions within a prescribed time limit and may be subject to an overdue charge of 0.05% of the delayed payment per day from the date on which the payment is payable. If such payment is not made within the stipulated period, the competent authority may further impose a fine from one to three times the amount of any overdue payment. Our PRC Legal Advisor has further advised us that, pursuant to relevant PRC laws and regulations,

if we fail to pay the full amount of housing provident fund as required, the housing provident fund management center may order us to make the outstanding payment within a prescribed time limit. If the payment is not made within such time limit, an application may be made to the PRC courts for compulsory enforcement. As of the Latest Practicable Date, no competent government authorities had imposed administrative action, fine or penalty to us with respect to this non-compliance incident nor had any competent government authorities required us to settle the outstanding amount of social insurance payments and housing provident fund contributions.

During the Track Record Period and as of the Latest Practicable Date, some of our PRC subsidiaries did not pay social security insurance and housing provident fund contributions in full for some of our employees in accordance with the relevant PRC laws and regulations. As of December 31, 2022, we did not pay social security insurance for 22 of our full-time employees as their social security insurance have been paid by other entities or themselves; we did not pay housing provident fund contributions for 24 of our full-time employees as their housing provident fund contributions have been paid by other entities or themselves, or they agreed not to make such contributions. Our non-compliance was primarily due to our large labor force and relatively high mobility, the lack of experience of our human resources personnel who did not fully understand the relevant requirements of the relevant PRC laws and regulations, and the preference of many of our employees not to contribute to such funds. We have taken the following rectification measures to prevent future occurrence of such non-compliance:

***Training***. Strengthen legal compliance training to our employees to increase their awareness of the relevant PRC laws and regulations and encourage their cooperation in making payments for social insurance and housing provident funds;

***Policy***. Formulate and distribute to our employees an internal control policy with respect to social insurance and housing provident fund contribution in compliance with relevant PRC laws and regulations, which we have started to implement; and

***Review and record-keeping***. Designate our human resources staff to monitor the payment status and prepare monthly reports of salary and contribution amounts, which shall be reviewed by our human resources department head and our finance department head to ensure that we make these payments and on time in accordance with relevant laws and regulations.

We began to make full payment of social security insurance and housing provident fund contributions based on the actual salaries of our employees gradually from July 2021 to the extent practicable under local practices. Despite our efforts, we were unable to make full contributions of social insurance and housing provident fund for all our employees as of the Latest Practicable Date because some employees did not cooperate and chose to not to contribute to such funds. We will continue to actively encourage the cooperation of such employees and make the relevant contributions once they agree to participate in the social insurance and housing provident funds programs.

Our Directors believe that such non-compliance would not have a material and adverse effect on our business and results of operations, considering that: (i) as of the Latest Practicable Date, we had not received any notification from the relevant PRC authorities requiring us to pay material shortfalls or the penalties with respect to social insurance and housing provident funds; (ii) we had not been subject to any material administrative penalties during the Track Record Period and up to the Latest Practicable Date; (iii) we were not aware of any material employee complaints nor were involved in any material labor disputes with our employees with respect to social insurance and housing provident funds; and (iv) we have made provisions of RMB24.5 million, RMB62.2 million and RMB42.4 million for the social insurance and housing provident fund contribution shortfall in 2020, 2021 and 2022, respectively. We also undertake to make timely payments for the deficient amount and overdue charges and take practical measures to mitigate the practice of engaging third party agencies to make contributions, as soon as requested by the competent government authorities.

For more details, please see "Risk Factors – Risks Relating to Doing Business in China – We may be subject to penalties under relevant PRC laws and regulations due to failure to be in full compliance with social insurance and housing provident fund regulation."

## INCIDENTS

### Incidents Relating To Bribery

#### *Shanghai Incident*

According to (2015) Min Xing Chu Zi No. 3087 judgment, the People's Procuratorate of Minhang District, Shanghai prosecuted Shanghai Adicon, due to bribery conducts in a total amount of RMB1,814,378 paid to relevant personnel of several medical institutions in Shanghai from January 2011 to May 2014 in order to seek and maintain a business advantage (the "**Shanghai Incident**"). As stated in the judgment, the relevant payments were normally initiated by the sales supervisors or sales representatives, and then summarized and reviewed by the sales assistants. Then such payments were progressively approved by the sales manager, the assistant general manager and the general manager. Once approved, the assistant general manager supervised and delivered the payments and then the sales supervisors or sales representatives paid to relevant personnel of the medical institutions.

None of our then and current director or senior management were involved in the Shanghai Incident. We believe the Shanghai Incident was uncovered by an on-site anti-corruption investigation carried out by relevant government authorities against the staff concerned. In December 2015, Shanghai Adicon was fined RMB600,000 and became disqualified to participate in government procurement activities for the following three years. After the Shanghai Incident, we terminated the employment agreements with these aforementioned employees and relevant sales representatives, and none of them worked for us during the Track Record Period and up to the Latest Practicable Date. Moreover, the relevant medical institutions had no longer served as our customers during the Track Record Period and up to the Latest Practicable Date.

Other than Shanghai Adicon, the business of our other subsidiaries has not been affected by the Shanghai Incident. The impact of the Shanghai Incident on Shanghai Adicon was not material and Shanghai Adicon has been eligible to participate in government procurement activities from 2019. As of the Latest Practicable Date, the main business of Shanghai Adicon is to provide testing services for CRO or pharmaceutical companies for scientific research or clinical trial purpose. It is not expected that the Shanghai Incident will have any further material negative impact on our future business, financial condition or results of operations.

#### *Other Incidents*

*(i) The Tang and Wang Case (People's Procuratorate of Minhang District of Shanghai vs. Xu)*

This is a criminal prosecution against Xu, the former deputy director of Minhang Community Medical Service Center in Shanghai (the "**Minhang Medical Center**"). Xu was accused of accepting a number of bribes for an aggregate amount of RMB106,000 during his service in Minhang Medical Center from February 2011 to July 2013, when he took advantage of his position of being in charge of purchasing drugs and medical equipment, and selecting suppliers. Among his seven bribes, Xu received a total amount of RMB20,000 from the former sales supervisor of Shanghai Adicon, Tang, in February 2012, and a total amount of RMB6,000 from the then sales supervisor of Shanghai Adicon, Wang, in 2013. Tang and Wang attended the trial as witnesses. Xu was convicted of bribery and sentenced to five years imprisonment. The concerned sales supervisors, Tang and Wang, left Shanghai Adicon after the incident. The incident did not have a material adverse impact on Shanghai Adicon. During the Track Record Period and up to the Latest Practicable Date, Minhang Medical Center had no longer been our customer.

*(ii) The Chen and Xu Case (People's Procuratorate of Pudong New District of Shanghai vs. Qiao)*

This is a criminal prosecution against Qiao, the former deputy director of Huinan Community Medical Service Center in Shanghai (the "**Huinan Medical Center**"). Qiao was accused of accepting a number of bribes for an aggregate amount of RMB86,000 from the then employees of Shanghai Adicon, Chen and Xu, during his service in Huinan Medical Center from the end of 2010 to September 2012, when he took advantage of his position of being in charge of public health. Qiao was convicted of bribery and sentenced to two years imprisonment with a suspension of sentence for two years. The two concerned employees, Chen and Xu, left Shanghai Adicon after the incident. The incident did not have a material adverse impact on Shanghai Adicon. During the Track Record Period and up to the Latest Practicable Date, Huinan Medical Center had no longer been our customer.

*(iii) The Zhu Case (People's Procuratorate of Shanxian County of Shandong vs. Ding)*

This is a criminal prosecution against Ding, the former director of the Basic Level Health Department of Shandong Provincial Health and Family Planning Commission. Ding was accused of accepting a number of bribes for an aggregate amount of RMB737,886 from the end of 2008 to April 2013. Among the bribers, Ding accepted a total amount of RMB261,886 from Zhu, the then general manager of Jinan Adicon in January 2012 and April 2013, and assisted Jinan Adicon with its bid to provide cervical cancer screening services in rural area of Shandong province (the "**Project**"). Jinan Adicon later successfully won the bids for the Project in August 2012, May 2013 and July 2014. Ding was convicted of bribery and sentenced to four years imprisonment. The concerned general manager, Zhu, left Jinan Adicon after the incident. The incident did not have a material adverse impact on Jinan Adicon. During the Track Record Period and up to the Latest Practicable Date, Basic Level Health Department of Shandong Provincial Health and Family Planning Commission had no longer been our customer.

*(iv) The Huang Case (People's Procuratorate of Xihu District of Hangzhou vs. Li)*

This is a copyright infringement and criminal prosecution against Li, an employee of an authorized distributor for Kingdee software. In August 2011, Li cracked the Kingdee software without the permission of the copyright holder, and installed the pirate version of the software on Hangzhou Adicon's server, with the permission of Huang Qinghe, the then IT manager of Hangzhou Adicon. In June 2012, Huang took kickback for a total amount of RMB30,000 from Li. Li was convicted of copyright infringement and bribery to non-state officials, and was sentenced to three years imprisonment with a suspension of sentence for four years. The concerned IT manager, Huang, left Hangzhou Adicon after the incident. The incident did not have a material adverse impact on the Company. During the Track Record Period and up to the Latest Practicable Date, the software distributor had no longer served as our supplier.

Given that (i) each of the incident described above occurred at the subsidiary level of the Group prior to the Track Record Period, and none of our subsidiary was prosecuted or convicted in any of the incidents, (ii) the concerned amount of payment or kickback was minimal, (iii) the concerned customer or supplier, individually or in the aggregate, was not material to the relevant subsidiary or the Group as a whole, (iv) none of the concerned parties in the incidents served as our customers or suppliers after the incidents, or during the Track Record Period and up to the Latest Practicable Date, (v) the concerned employees already left the relevant subsidiary after the incident, and (vi) none of the current directors or senior management of the Company was involved in any of the incidents, our Directors believe that the aforementioned incidents, individually or in the aggregate, did not have a material adverse effect on our business as a whole.

***Remedial actions taken by the Company following the Incidents***

We have taken the following measures to prevent the recurrence of similar incidents in the future, and there was no recurrence of incidents of similar kind in which our Group or any of our subsidiaries was held liable for any bribery activities subsequent to the Shanghai Incident.

*Implementation of Anti-corruption Policies and Procedures*

In November 2018, we implemented anti-corruption policies and procedures (the "**Anti-corruption Policies and Procedures**"), which sets forth our commitment to ensure that each subsidiary and employee abides by applicable anti-corruption laws and internal policies.

We prohibit bribery in any form. Employees may not, whether directly or through a third party, offer, give, promise, authorize the payment of anything of value to any person or entity, including any government official, in order to improperly influence or reward any decision or act related to our business, including to improperly obtain or retain business or a business advantage. Receiving, requesting, or agreeing to receive a bribe is also prohibited, as are facilitation payments. In addition, we set up different management approval authority to ensure approval roles are effectively separated, and expenditures are properly reviewed, approved and authorized. In general, our chief compliance officer is in charge of the approval of the exceptional cases to our internal procedures and guidelines, whereas our chief financial officer takes to scrutinize and approve any large expenditures and proposed engagements of third-party service providers. The management monitors the third party payments during regular internal audits to identify non-compliance incidents. Moreover, we extend our anti-corruption and anti-bribery efforts not only to our management and employees, but also to third-party intermediaries and agents. They are strictly prohibited from providing improper payments or gifts on behalf of the company to any entity or individual, including but not limited to government officials.

We require our engagement with third parties to be made in the form of written agreement, which shall include complete and accurate descriptions of salient terms such as the scope of service and fee arrangement. All fee arrangement shall be in line with market practice and comply with applicable laws. We prohibit any cash payment to third party service providers. Payment to third parties shall be made through bank transfer to a bank account opened in the place where the service is provided or where the party's office is located. Any other payment methods shall be subject to the approval from our chief compliance officer on a case by case basis. There may be very few cases where exceptions to our internal procedures and guidelines are urged in response to emergencies such as imminent threat to the health and safety of our employees. Nevertheless, any exceptions to our procedures and guidelines are subject to written approval by our chief compliance officer. Before engaging any third parties, detailed background check must be conducted to ensure that we cooperate with reliable partners. Our sales team conducts background check before engaging new customers, including reviewing business license, tax registration certificate, medical practice permit and physician license, based on different customer groups. For intermediaries and agents, our sales team reviews their business scope and conduct public research to make sure such agents are not subject to any non-compliance incidents. Before engaging new suppliers, our procurement team runs background check on their licenses and certificates required for the performance of relevant service as per relevant laws and regulations, and investigates the manufacturing and operation of such suppliers to make sure they have the capacity required for the performance of relevant services. If the amount to be paid to third party service providers is in excessive of RMB50,000, regardless of whether it is in the form of remuneration or reimbursement, the introducing and supervising personnel must first obtain approval from senior management within our finance department who shall conduct a thorough background check on the third party. The introducing and supervising personnel shall cooperate with our finance department to collect materials and information required for the performance of background check, and to negotiate the compliance terms of the relevant agreement pursuant to the instructions of the chief financial officer.

In addition, our Anti-corruptions Policies set out red flags indicating higher risks leading to a possible violation from detailed aspects, such as irregular payment or reimbursement requests from the third party service providers, their relationships with government officials, their refusal of committing to our Anti-corruption Policies or disclosing responsible personnel or organizational structure, or if they are subject to any non-compliance incidents. We require employees who have knowledge of any violation of this policy, or any risk that may lead to a violation, to immediately report the corresponding situation directly to our chief compliance officer. To this regard, we established whistleblowing policies to protect those employees who report probable violations they

are aware of. Our internal audit team has set up hot line, e-mail and mail address for reporting. The internal audit team evaluates the alleged risk or violation received and make report to the board, who will then decide if further investigation is required. We maintain the confidentiality of the anonymous whistleblower during the investigation and strictly prohibit any discrimination or retaliation against such whistleblower. Those who were found to break the protection measures will be subject to penalties pursuant to our internal employees' code of conduct, and transferred to the judicial department in accordance with applicable laws and regulations. Violations of the Anti-corruption Policies and Procedures may result in disciplinary actions, up to and including termination of employment.

*Establishment of Internal Control Department and Appointment of Chief Compliance Officer*

After discovering the Shanghai Incident, in June 2014, we enhanced out internal control measures and established an internal control department. Our internal control department conducts regular internal audits and reviews to assess the compliance of departments and individual employees with our internal control policies including the Anti-corruption Policies and Procedures. We constantly monitor the implementation of those measures and procedures through our on-site internal control teams, and we regularly review and enhance our internal control system.

In addition, we have appointed a chief compliance officer, Ms. LAN Jia, who is responsible for the management and enforcement of our internal control policies, under the supervision of our chief executive officer and the Board. Ms. LAN takes to update the Anti-corruption Policies and Procedures, as well as the training materials on a regular basis, and to coordinate with the Board to assess and evaluate the performing status and effectiveness of our relevant internal control efforts. Ms. LAN enjoys extensive experience in management, finance, accounting and compliance. Prior to joining us, Ms. LAN worked for more than five years in Meinian Onehealth, where she had been primarily responsible for the company's finance, investment and financial compliance. Prior to that, she worked as the head of internal audit in a Shenzhen listed company, and concurrently as an independent director of another Shenzhen listed company. Ms. LAN obtained the Certified Public Accountant qualification in China in 2001. Leveraging her versatility and rich experience, she is capable of taking charge of the overall risk management of our Company, and implementing consistent and effective policies and procedures accommodating our organization structure.

*Training*

All of our employees are required to complete compulsory and comprehensive training on our Anti-corruption Policies and Procedures covering outlines of prohibited behaviors, our supervisory policies, and penalties for violation of such policies and procedures and coupled with illustrative case studies. All employees are required to execute Compliance Assurance Letter on a periodic basis in which they agree to comply with the Anti-corruption Policies and Procedures and will not engage in any bribery or corruption behaviors. In addition, we require our sales and marketing personnel to pass our tests on such policies and procedures to ensure they acknowledge the key topic areas of bribery and the best practice. Moreover, we also require the managers of each of our departments to take an anti-corruption annual questionnaire by the end of each fiscal year, and report to our chief compliance officer for assessment and inspection.

***Directors' and Joint Sponsors' Views***

Based on our investigations, our Directors are of the view that (i) the Shanghai Incident and the other incidents occurred at the subsidiary level and our directors and senior management then and now held in office were not aware of, were not involved in and did not in any way endorse the misconduct in the Shanghai Incident, the Tang and Wang Case, the Chen and Xu Case, the Zhu Case and the Huang Case; (ii) our Group has implemented enhanced internal control measures to prevent similar incidents in the future, which our Directors believe are effective, as no similar incidents in which our Group or any of our subsidiaries was held liable for any bribery activities occurred after the incidents; and (iii) all of the incidents, individually or in the aggregate, did not and will not have any material effect on our business, financial condition and results of operations.

Having considered the view of the Directors and based on the due diligence work conducted by the Joint Sponsors, including but not limited to reviewing the internal control policies and measures of the Group with the assistance of an internal control consulting firm (the "**Internal Control Consultant**") pursuant to the scope agreed among the Company, the Joint Sponsors and the Internal Control Consultant, understanding that the Internal Control Consultant did not identify deficiencies in such controls that would warrant rectification recommendations within the Group and interviewing with relevant management of the Company, nothing has come to the Joint Sponsors' attention that would reasonably cause them to cast doubt on the reasonableness of the view of the Directors above.

**Incident Relating To Bidding**

***Background***

Hefei Adicon participated the bidding for Mingguang Municipal People's Hospital in June 2019 and initially won the bid. As Hefei Adicon obtained a certificate of "Highly Specialized and Innovative Small and Medium-sized Enterprise of Anhui Province" (安徽省專精特新中小企業) issued by the Economic and Information Technology Commission of Anhui Province (安徽省經濟和信息化委員會) in 2015 and a certificate of "Excellent Entity for Employment of People with Disabilities" (殘疾人就業先進集體) issued by Hefei municipal government in 2010, Hefei Adicon's staff erroneously checked the relevant items of small and medium-sized enterprise status and welfare enterprise for people with disabilities (殘疾人福利企業) status in the electronic bidding submission system (the "Hefei Incident"). Upon investigation conducted by Mingguang Municipal Development and Reform Commission Office, as Hefei Adicon was neither a small enterprise nor a welfare enterprise for people with disabilities in accordance with applicable rules, the aforesaid information submitted by Hefei Adicon during the bidding process was deemed as false information. As a result, Hefei Adicon was determined to be disqualified for the bid with Mingguang Municipal People's Hospital. It was imposed a fine of RMB5,100 and banned from participating in government procurement activities for one year from October 31, 2019 and the Hefei Incident was recorded and publicly disclosed as an ordinary dishonest conduct (一般失信行為) on website of Credit China (www.creditchina.gov.cn).

Upon Hefei Adicon's application based on the reasons that (i) the allegation of a small enterprise and welfare enterprise for people with disabilities didn't add any point to Hefei Adicon in the bidding valuation process, (ii) the allegation was made purely due to uninformed carelessness of relevant employees, (iii) the Hefei Incident did not result in any material negative impact on Mingguang Municipal People's Hospital and other participants in the bidding and Hefei Adicon did not receive any economic benefits due to its negligence in the Hefei Incident, and (iv) Hefei Adicon has fully paid the fine and made all necessary rectification measures, the competent government authorities made the decision, on February 12, 2020, to restore the credibility of Hefei Adicon and the public disclosure of the ordinary dishonest conduct was subsequently withdrawn from Credit China.

After the Hefei Incident, the concerned staff resigned from our Company. As the Hefei Incident was purely due to uninformed carelessness of the relevant staff, based on our internal investigation, the concerned staff did not obtain any benefits from the incident. The impact of the Hefei Incident on Hefei Adicon was not material and Hefei Adicon is now eligible to participate in government procurement activities. It is not expected that the Biding Incident will have any further material negative impact on our future business, financial condition or results of operations.

***Remedial actions taken by the Company following the Hefei Incident***

We have taken the following measures to prevent the recurrence of similar incidents in the future, and there was no recurrence of similar incidents in which our Group or any of our subsidiaries was held liable for any noncompliance in participating in any government procurement activities subsequent to the Hefei Incident.

*Establishment of a Bidding Management Team*

To effectively prevent any similar incident from happening in the future, we built a dedicated bidding team to closely manage and supervise the bidding process. Our bidding team consists of a material preparation group and a participating group, both of which have a handful of specialists with extensive experience. By engaging a group of specialists each handling specific procedures they are familiar with, we are able to effectively enhance our bidding quality and significantly reduce potential mistakes.

*Enhancement of Policies and Procedures*

Coupled with our specialists, we also enhanced the standardization of our procedures and established review mechanism to further ensure the accuracy of our information provided in bidding materials. Once the bidding material is composed, it will be subject to in-depth review by our bidding material review specialists to ensure that we take due care to meet all relevant requirements set by the customer. We have also made it clear that in the case of similar bidding incidents caused by carelessness or any other malpractice of the relevant staff, the staff will be subject to disciplinary actions, dependent upon the severity of such incident.

*Training*

We organized multiple training sessions on bidding process for our employees, including trainings on laws and regulations on bidding and our enhanced internal bidding procedures. We will continue to conduct regular trainings for our bidding team.

***Views of our Directors***

Based on our investigations, our Directors are of the view that (i) the inaccuracy of the information provided in the Hefei Incident was not willful and was purely out of uninformed carelessness; (ii) our Group has enhanced the internal bidding procedures to prevent similar incident in the future and no similar incidents in which our Group or any of our subsidiaries was held liable for any noncompliance in participating in any government procurement activities occurred after the Hefei Incident; and (iii) the Hefei Incident did not and will not have any material effect on our business, financial condition and results of operations.

## RISK MANAGEMENT AND INTERNAL CONTROL

### Risk Management

We are dedicated to the establishment and maintenance of a robust risk management and internal control system. We have adopted and implemented risk management policies and corporate governance measures in various aspects of our business operations to identify, assess, evaluate and monitor key risks associated with our strategic objectives on an on-going basis. Our audit committee, and ultimately our Directors supervise the implementation of our risk management programs. Risks identified by management will be analyzed on the basis of likelihood and impact, and will be properly followed up and mitigated and rectified by our Group and reported to our Directors.

The following key principles outline our approach to risk management and internal control:

Our Audit Committee oversees and manages the overall risks associated with our business operations, including (i) reviewing and approving our risk management programs and procedures to ensure that it is consistent with our corporate objectives; (ii) monitoring the most significant risks associated with our business operation and our management's handling of such risks; (iii) reviewing our corporate risk matrix in the light of our corporate risk tolerance; (iv) reviewing the significant residual risks and the needs to set up mitigating controls; and (v) monitoring and ensuring the appropriate application of our risk management framework across our Group.

Our chief financial officer, Mr. WANG Lawrence Allen, is responsible for (i) formulating and updating our risk management program and target; (ii) reviewing and approving major risk management issues of our Company; (iii) promulgating risk management measures; (iv) providing guidance on our risk management approach to the relevant departments in our Company; (v) reviewing the relevant departments' reporting on key risks and providing feedbacks; (vi) supervising the implementation of our risk management measures by the relevant departments; (vii) ensuring that the appropriate structure, processes and competences are in place across our Group; and (viii) reporting to our Audit Committee on our material risks.

Our finance department, legal and compliance department, and human resources department are responsible for implementing our risk management program and carrying out our day-to-day risk management practice. In order to formalize risk management across our Group and set a common level of transparency and risk management performance, the relevant departments will (i) gather information about the risks relating to their operation or function; (ii) conduct risk assessments, which include the identification, prioritization, measurement and categorization of all key risks that could potentially affect their objectives; (iii) continuously monitor the key risks relating to their operation or function; (iv) implement appropriate risk responses where necessary; and (v) develop and maintain an appropriate mechanism to facilitate the application of our risk management framework.

**Internal Control**

Our Board is responsible for establishing our internal control system and reviewing its effectiveness. We have engaged the Internal Control Consultant to perform certain agreed-upon procedures (the "**Internal Control Review**") in connection with our internal control and our major operating subsidiaries and to report factual findings on our entity-level controls and internal controls of various processes, including financial reporting and disclosure controls, sales accounts receivable and collection, procurement and vendor management, accounts payable and payment, fixed assets and assets under construction, human resources and payroll management, cash and treasury management, inventory management, general controls of IT system, taxation management, production and costing, insurance management, research and development and intangible assets. The Internal Control Consultant performed the Internal Control Review. As of the Latest Practicable Date, there were no material outstanding issues relating to our internal control.

We regularly reviewed and enhanced our internal control system. The following is a summary of the internal control policies, measures and procedures we have implemented or plan to implement:

We have adopted various measures and procedures regarding each aspect of our business operation, such as sample management, sample collection and transportation, quality control over laboratory operations, protection of intellectual property, information security, adverse event reporting, environmental protection and occupational health and safety, etc. We provide periodic training about these measures and procedures to our employees as part of our employee training program. We also constantly monitor the implementation of those measures and procedures through our on-site internal control teams.

Our senior management team and our Directors, with help from our legal advisors, will also periodically review our compliance status with all relevant laws and regulations. We have internally established a set of compliance policies to provide guidance to our employees on expected business practices and ethical and moral behaviors, such as Code of Conduct and Ethics Policy and Anti-corruption Policies and Procedures. We strictly require our employees to comply with applicable anti-corruption laws. Such anti-corruption laws generally prohibit the offer, promise, payment or receipt of anything of value to obtain, retain or grant business opportunities or to exchange in an improper advantage. Any employee that violates the Anti-corruption Policies and Procedures can be subject to disciplinary actions, up to and including termination of employment. We also prohibit employees from engaging in any illegal or unethical economic behavior and seeking benefits from it, and implement strict management and audit procedures to prevent lack of transparency and corruption during the sale or procurement process.

## LICENSES, PERMITS AND APPROVALS

Our PRC Legal Advisor has advised us that as of the Latest Practicable Date, except as otherwise disclosed, we had obtained all requisite licenses, approvals and permits from the relevant government authorities that are material for our business operations in China. In addition, the Company believes that there is no foreseeable difficulty in renewing the material licenses that will expire in the next 12 months after [**REDACTED**].

The following table sets forth a list of material licenses currently held by us:

| License Holder | License | Issuance/Grant Date | Expiration Date |
|---|---|---|---|
| Hangzhou Adicon | Medical Institution Practicing License | June 18, 2020 | June 17, 2025 |
| Hefei Adicon | Medical Institution Practicing License | August 20, 2018 | August 19, 2023 |
| Shanghai Adicon | Medical Institution Practicing License | May 31, 2021 | July 14, 2026 |
| Jinan Adicon | Medical Institution Practicing License | November 26, 2020 | November 25, 2035 |
| Beijing Adicon | Medical Institution Practicing License | October 25, 2022 | December 17, 2024 |
| Nanchang Adicon | Medical Institution Practicing License | May 13, 2022 | May 12, 2027 |
| Fuzhou Adicon | Medical Institution Practicing License | January 5, 2021 | January 4, 2024 |
| Jilin Adicon | Medical Institution Practicing License | May 6, 2021 | May 5, 2026 |
| Wuhan Adicon | Medical Institution Practicing License | November 22, 2021 | December 4, 2026 |
| Nanjing Adicon | Medical Institution Practicing License | November 12, 2019 | May 3, 2024 |
| Changsha Adicon | Medical Institution Practicing License | May 25, 2022 | April 2, 2023 |
| Chengdu Adicon | Medical Institution Practicing License | July 6, 2020 | July 14, 2025 |
| Shenyang Adicon | Medical Institution Practicing License | January 21, 2022 | January 20, 2027 |
| Zhengzhou Adicon | Medical Institution Practicing License | April 23, 2020 | April 17, 2025 |
| Guangzhou Adicon | Medical Institution Practicing License | March 26, 2021 | August 7, 2023 |
| Tianjin Adicon | Medical Institution Practicing License | February 9, 2022 | February 8, 2027 |
| Yunnan Adicon | Medical Institution Practicing License | September 5, 2022 | December 2, 2024 |
| Xi'an Adicon | Medical Institution Practicing License | October 26, 2021 | November 23, 2026 |
| Sanming Adicon | Medical Institution Practicing License | October 26, 2022 | November 14, 2025 |
| Chongqing Adicon | Medical Institution Practicing License | October 26, 2020 | August 27, 2023 |
| Nanning Adicon | Medical Institution Practicing License | December 16, 2022 | December 8, 2024 |
| Qingdao Adicon | Medical Institution Practicing License | December 20, 2019 | December 19, 2024 |
| Shenzhen Adicon | Medical Institution Practicing License | May 16, 2020 | January 20, 2025 |
| Quzhou Adicon | Medical Institution Practicing License | April 22, 2022 | July 26, 2035 |
| Shangrao Adicon | Medical Institution Practicing License | December 14, 2020 | November 27, 2034 |
| Xiamen Adicon | Medical Institution Practicing License | June 9, 2021 | June 8, 2024 |
| Suzhou Adicon | Medical Institution Practicing License | May 23, 2022 | May 22, 2027 |
| Henan Adicon | Medical Institution Practicing License | July 9, 2020 | July 8, 2035 |
| Guizhou Adicon | Medical Institution Practicing License | June 7, 2022 | June 7, 2025 |
| Heilongjiang Adicon | Medical Institution Practicing License | August 8, 2022 | August 7, 2027 |
| Wenzhou Adicon | Medical Institution Practicing License | September 23, 2022 | September 22, 2027 |
| Xinyang Adicon | Medical Institution Practicing License | November 14, 2022 | November 13, 2037 |
| Hangzhou Huitu | Medical Device Operation License | May 8, 2021 | April 1, 2026 |
| Shanghai Lv'angjie | Medical Device Operation License | March 22, 2021 | January 24, 2026 |
| Jiangxi Jince | Medical Device Operation License | June 28, 2021 | December 6, 2025 |