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

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

OVERVIEW

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

Aided by the changes implemented by our Controlling Shareholders since 2018, we have experienced rapid growth and strong financial performance during the Track Record Period. Our total revenues grew at a CAGR of 33.1% from RMB2,741.7 million in 2020 to RMB4,860.6 million in 2022. Our net profit increased at a CAGR of 53.8% from RMB289.5 million in 2020 to RMB684.9 million in 2022. Our adjusted EBITDA (non-IFRS measure) grew at a CAGR of 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 "– Non-IFRS Measures".

BASIS OF PRESENTATION

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

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

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

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

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

Our ability to capture emerging growth opportunities

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

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

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

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

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

Critical Accounting Policies

Revenue Recognition

Revenue from contracts with customers

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

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

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

(a) Medical diagnostic testing services

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

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

(b) Sales of medical products

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

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

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

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

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

Other income

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

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

Fair Value Measurement

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

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

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

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

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

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

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

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

Property and Equipment and Depreciation

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

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

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

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

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

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

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

Impairment of Non-Financial Assets

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

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

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

Impairment assessment for goodwill

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

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

	Shangrao Adicon and Jiangxi Jince CGU	
	As of December 31,	
	2021	2022
Revenue (% compound growth rate)	8%	5%
Terminal growth rate	3%	2%
Pre-tax discount rate	18%	19%

	Henan Adicon CGU
	As of December 31, 2022
Revenue (% compound growth rate)	10%
Terminal growth rate	2%
Pre-tax discount rate	22%

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

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

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

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

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

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

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

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

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

Critical Accounting Estimates

Provision for Expected Credit Losses of Trade and Bills Receivables

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

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

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

Deferred Tax Assets

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

Fair Value of Financial Instruments

The convertible redeemable preferred shares issued by the Group are not traded in an active market and the respective fair values are determined by using valuation techniques, including Black-Scholes option pricing model. The fair values of convertible redeemable preferred shares as of December 31, 2022 were RMB589,179,000. Further details are set out in note 30 to the Accountants' Report included in Appendix I to this Document.

CONSOLIDATED INCOME STATEMENTS

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

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

NON-IFRS MEASURES

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use non-IFRS measures, namely EBITDA, adjusted EBITDA, and adjusted net profit as additional financial measures, which are not required by or presented in accordance with IFRS. We believe that such non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of certain items. We exclude [**REDACTED**] and fair value loss/(gain) on financial instruments at FVTPL when presenting non-IFRS measures, because they are not expected to result in future cash payments. We also exclude share-based compensation expenses when presenting non-IFRS measures. We account for the compensation cost from share-based payment transactions with employees based on the grant date fair value of the equity instrument issued by the Company. The grant date fair value of the award is recognized as compensation expenses, net of forfeitures, over the period during which an employee is required to provide service in exchange for the award, which is generally the vesting period. Share-based payments are non-cash in nature and do not result in cash outflow, and the adjustment has been consistently made during the Track Record Period, which complies with GL103-19. In particular, because of varying valuation methodologies and assumptions and the variety of award types that different companies can use, we believe that excluding share-based payments allows investors to make more meaningful comparisons between our operating results and those of other companies. In addition, fair value loss on convertible redeemable preferred shares at

FTVPL will be converted into equity upon [**REDACTED**], and it represents fair value changes of the convertible redeemable preferred shares issued by our Company and relates to changes in the valuation of our Company. The reconciling item is non-cash and does not result in cash outflow.

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

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

	For the Year Ended December 31,		
	2020	2021	2022
	(RMB in thousands)		
Profit for the year	289,453	322,295	684,884
Add:			
Income tax expenses:	68,732	94,948	135,928
Profit before tax	358,185	417,243	820,812
Add:			
Depreciation	113,118	136,235	188,565
Amortization	662	1,617	4,853
Finance costs	19,644	16,326	76,824
Less:			
Bank interest income	3,765	6,289	8,874
EBITDA	**487,844**	**565,132**	**1,082,180**
Add:			
Share-based compensation expenses	63,598	37,325	15,049
[**REDACTED**]	[REDACTED]	[REDACTED]	[REDACTED]
Fair value loss/(gain) on financial instruments at FVTPL	–	61,531	(108,027)
Adjusted EBITDA	**567,621**	**699,278**	**998,686**

We define adjusted net profit as profit for the year adjusted by adding back, net of tax, share-based compensation expenses, [**REDACTED**] and fair value loss/(gain) on financial instruments at FVTPL.

	For the Year Ended December 31,		
	2020	2021	2022
	(RMB in thousands)		
Profit for the year	289,453	322,295	684,884
Add:			
Share-based compensation expenses	63,598	37,325	15,049
[**REDACTED**]	[REDACTED]	[REDACTED]	[REDACTED]
Fair value loss/(gain) on financial instruments at FVTPL	–	61,531	(180,027)
Less:			
Tax shield adjustment	2,195	5,203	1,460
Adjusted net profit	**367,035**	**451,238**	**599,930**

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenues

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

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

Revenues from Medical Diagnostic Testing Services

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

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

	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.

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

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

Note:

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

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

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

Revenues from Sales of Medical Products

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

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

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

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

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

Note:

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

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

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

Costs of Sales

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

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

Gross Profit and Gross Profit Margin

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

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

Selling and Marketing Expenses

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

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

Note:

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

Administrative Expenses

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

	For the Year Ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except for percentages)					
Staff costs	147,343	62.3	168,411	64.0	174,536	61.8
Consulting and professional service fees	44,295	18.7	31,886	12.1	27,299	9.7
Office expenses	23,549	10.0	32,954	12.6	42,383	15.0
Others[1]	21,379	9.0	29,752	11.3	38,043	13.5
Total	**236,566**	**100.0**	**263,003**	**100.0**	**282,261**	**100.0**

Note:

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

Research and Development Expenses

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

	For the Year Ended December 31,					
	2020		2021		2022	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except for percentages)					
Staff costs	43,058	42.2	67,943	54.2	84,982	52.2
Laboratory expenses	11,916	11.7	6,906	5.5	8,031	4.9
Reagent consumables	44,851	44.0	47,430	37.8	63,296	38.9
Others[(1)]	2,183	2.1	3,167	2.5	6,526	4.0
Total	**102,009**	**100.0**	**125,446**	**100.0**	**162,745**	**100.0**

Note:

(1) Others include utilities expenses and maintenance expenses.

Other Expenses

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

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

Other Income and Gains

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

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

Finance Costs

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

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

Income Tax Expenses

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

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

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

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

Cayman Islands

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

Hong Kong

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

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

PRC

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

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

Profit for the Year/Period

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

YEAR-TO-YEAR COMPARISON OF RESULTS OF OPERATIONS

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

Revenues

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

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

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

Cost of Sales

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

Gross Profit and Gross Profit Margin

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

Selling and Marketing Expenses

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

Administrative Expenses

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

Research and Development Expenses

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

Other Expenses

Our other expenses increased from RMB48.5 million in 2021 to RMB128.4 million in 2022, primarily due to (i) an increase of RMB73.4 million in impairment losses, net of reversal, consisting of RMB71.9 million in financial assets under ECL model and (ii) an increase of RMB6.7 million in foreign exchange losses, net, resulting from currency fluctuations in 2022.

[**REDACTED**]

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

Other Income and Gains

Our other income and gains increased from RMB14.8 million in 2021 to RMB50.8 million in 2022, primarily due to (i) an additional RMB13.3 million of fair value gain on contingent consideration relating to our acquisition of Henan Adicon, and (ii) an increase of RMB10.4 million in government grants.

Finance Costs

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

Income Tax Expenses

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

Profit for the Year

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

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

Revenues

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

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

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

Cost of Sales

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

Gross Profit and Gross Profit Margin

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

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

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

Selling and Marketing Expenses

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

Administrative Expenses

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

Research and Development Expenses

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

Other Expenses

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

[**REDACTED**]

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

Other Income and Gains

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

Finance Costs

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

Income Tax Expenses

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

Profit for the year

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

DISCUSSION OF CERTAIN KEY CONSOLIDATED BALANCE SHEETS ITEMS

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

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

Net Current Assets/Liabilities

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

	As of December 31,		
	2020	2021	2022
	(RMB in thousands)		
Current assets:			
Inventories	102,932	109,395	229,413
Trade and bills receivables	942,041	1,213,512	1,856,847
Prepayments, deposits and other receivables	61,120	105,716	127,860
Amounts due from related parties	199	270	227
Cash and bank balances	1,228,620	1,109,211	1,680,625
Total current assets	**2,334,912**	**2,538,104**	**3,894,972**
Current liabilities:			
Trade payables	383,775	510,691	1,062,452
Other payables and accruals	365,428	689,136	985,104
Contract liabilities	11,665	20,683	21,060
Interest-bearing bank borrowings	120,178	49,141	112,792
Profit tax payable	44,078	50,303	124,553
Amounts due to related parties	55,430	36,167	61,071
Lease liabilities	28,416	31,653	51,400
Total current liabilities	**1,008,970**	**1,387,774**	**2,418,432**
Net current assets	**1,325,942**	**1,150,330**	**1,476,540**

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

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

Inventories

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

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

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

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

	For the Year Ended December 31,		
	2020	2021	2022
Inventory turnover days (1)	21	20	21

Note:

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

As of January 31, 2023, RMB122.6 million, or 50.5% of our inventories outstanding as of December 31, 2022 was sold or utilized. This was primarily due to an early Chinese New Year in 2023, which resulted in seasonal slowdown in January 2023.

Trade and Bills Receivables

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

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

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

Note:

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

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

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

	As of December 31,		
	2020	2021	2022
	(RMB in thousands)		
Within 1 year	904,556	1,178,908	1,799,613
1 year to 2 years	65,061	87,890	196,608
Over 2 years	18,423	18,649	47,680
Total	**988,040**	**1,285,447**	**2,043,901**

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

	For the Year Ended December 31,		
	2020	2021	2022
Trade receivables turnover days[1]	115	123	125

Note:

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

Our trade receivables turnover days increased from 115 days in 2020 to 123 days in 2021, and to 125 days in 2022. In line with industry practice, we generally extend a longer settlement period to institutional customers, such as public hospitals, considering their good credit standing. Furthermore, the settlement period of certain customers has been prolonged as a result of the COVID-19 pandemic. Our sales and business operation teams communicate with the customer constantly and regularly, monitor the progress on the recoverability of the trade receivables, and our finance team perform regular reviews on the ages of our trade receivables.

As of January 31, 2023, RMB136.8 million, or 6.7% of our trade and bills receivables outstanding as of December 31, 2022 had been subsequently settled.

We perform impairment analysis and make sufficient provision using a provision matrix to measure ECLs for trade and bills receivables related to each testing item. Starting from 2022, we participated in an increasing number of COVID-19 mass testing organized by local governments, which may have longer payment periods. To navigate the risks of these receivables, we have been, and will continue to put further focus on its collection efforts and will closely monitor these accounts to ensure proper and timely settlement in line with our historical experience. We have factored in our ECLs through ECL model which includes the historical loss experience of all our customers. The ECL model has been reviewed and validated by independent third-party valuation firm. See "– Critical Accounting Estimates – Provision for Expected Credit Losses of Trade and Bills Receivables" for details of of our provision matrix. As of January 31, 2023, the ECL on our unsettled amount of outstanding trade and bills receivables on December 31, 2022 was RMB183.0 million.

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

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

Having considered the foregoing, our Directors are of the view that the recoverability of trade receivables is reasonably assured, and the relevant impairment provision is adequate. For risk related to the recoverability of our trade receivables, please see "Risk Factors – Risks Relating to Our Business and Industry – We are subject to credit risks in relation to trade and bill receivables and customers could default on their obligations to pay our fees."

Prepayments, Deposits and Other Receivables

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

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

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

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

As of January 31, 2023, RMB21.0 million, or 31.7% of our prepayments, deposits and other receivables outstanding as of December 31, 2022 had been subsequently settled.

Trade Payables

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

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

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

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

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

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

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

Note:

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

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

As of January 31, 2023, RMB230.4 million, or 21.7% of our trade payables outstanding as of December 31, 2022 had been subsequently settled. Our Directors confirm that we had no material defaults in our trade and other payables during the Track Record Period and up to the Latest Practicable Date.

Other Payables and Accruals

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

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

Note:

(1) Represents the acquisitions of 61% of the equity interests in each of the Shangrao Adicon and Jiangxi Jince in 2021, 51% of the equity interest in Henan Adicon in 2022. For acquisition of Shangrao Adicon and Jiangxi Jince, (i) RMB4.4 million remained in payables as of December 31, 2022, (ii) RMB13.7 million was recognized as contingent consideration as of December 31, 2022, and (iii) RMB57.5 million remained in payables estimated based on the present value of the put option's strike price over the non-controlling interests, as of December 31, 2021 and 2022. For acquisition of Henan Adicon, as of December 31, 2022 (i) RMB13.3 million was recognized as contingent consideration, and (ii) RMB43.8 million remained in payables estimated based on the present value of the put option's strike price over the non-controlling interests. For details of the acquisitions, see Note 27 in Appendix I to this Document.

Our other payables and accruals increased from RMB365.4 million as of December 31, 2020 to RMB689.1 million as of December 31, 2021, primarily due to (i) an increase of RMB132.7 million in payroll payables, resulting from the change in our payroll cycle, (ii) payables arising from acquisitions of two subsidiaries of RMB75.5 million, and (iii) an increase of RMB45.1 million in other payables, mainly consisting of payables for the acquisition of testing equipment.

Our other payables and accruals increased from RMB689.1 million as of December 31, 2021 to RMB985.1 million as of December 31, 2022, primarily due to (i) an increase of RMB107.3 million in payables arising from acquisitions of subsidiaries, (ii) an increase of RMB98.0 million in payroll payables, mainly comprising increases in employee bonus and social insurance, and (iii) an increase of RMB81.8 million in accruals.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

Net cash generated from operating activities

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

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

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

Net cash used in investing activities

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

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

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

Net cash generated from/(used in) financing activities

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

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

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

WORKING CAPITAL

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

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

INDEBTEDNESS

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

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

Note:

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

Interest-Bearing Bank Borrowings

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

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

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

Lease liabilities

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

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

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

Convertible Redeemable Preferred Shares

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

CONTINGENT LIABILITIES

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

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

CAPITAL EXPENDITURES

Our capital expenditures during the Track Record Period primarily consisted of expenditures on (i) property and equipment, and (ii) intangible assets.

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

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

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

COMMITMENTS

Capital Commitments

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

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

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

MATERIAL RELATED PARTY TRANSACTIONS

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

KEY FINANCIAL RATIOS

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

	For the Year Ended December 31,		
	2020	2021	2022
Profitability ratios			
Gross profit margin[(1)]	40.7%	42.7%	39.0%
Net profit margin[(2)]	10.6%	9.5%	14.1%
Adjusted net profit margin[(3)]	13.4%	13.4%	12.3%
EBITDA margin[(4)]	17.8%	16.7%	22.3%
Adjusted EBITDA margin[(5)]	20.7%	20.7%	20.5%
Return on equity[(6)]	35.4%	34.1%	93.5%
Return on assets[(7)]	13.8%	11.1%	17.2%
	As of December 31,		
	2020	**2021**	**2022**
Liquidity ratios			
Current ratio[(8)]	2.31	1.83	1.61
Quick ratio[(9)]	2.21	1.75	1.52
Capital adequacy ratios			
Gearing ratio[(10)]	0.21	0.16	1.86

Notes:

(1) Gross profit for the year divided by revenue for the same year and multiplied by 100.0%.

(2) Profit for the year divided by revenue for the same year and multiplied by 100.0%.

(3) Adjusted net profit margin is a non-IFRS measure. It equals adjusted net profit for a year (non-IFRS measure) divided by revenue for the same year and multiplied by 100.0%. For a reconciliation of adjusted net profit to net profit, see "– Non-IFRS Measures".

(4) EBITDA margin is a non-IFRS measure. It equals EBITDA for the year divided by revenue for the same year and multiplied by 100.0%. For reconciliation of EBITDA from profit before tax, see "– Non-IFRS Measures".

(5) Adjusted EBITDA margin is a non-IFRS measure. It equals adjusted EBITDA for the year (non-IFRS measure) divided by revenue for the same year and multiplied by 100.0%. For reconciliation of adjusted EBITDA from profit before tax, see "– Non-IFRS Measures".

(6) Net profit for the year divided by average total equity as of the beginning and the end of such year and multiplied by 100.0%.

(7) Net profit for the year divided by average total assets as of the beginning and the end of such year and multiplied by 100.0%.

(8) Current assets divided by current liabilities as of the end of the year.

(9) Current assets less inventories divided by current liabilities as of the end of the year.

(10) Total borrowings divided by total equity as of the end of the year.

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

FINANCIAL RISK DISCLOSURE

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

Credit risk

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

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

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

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

Liquidity risk

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

Interest rate risk

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

Currency risk

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

DIVIDENDS

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

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

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

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

[REDACTED]

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

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

NON-RECURRING LONG-TERM CASH INCENTIVE PLAN

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

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

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

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

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

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

Notes:

(1) The consolidated net tangible assets of the Group attributable to owners of the Company as of December 31, 2022 was equal to the audited net assets attributable to owners of the Company as of December 31, 2022 of RMB510,824,000 after deducting of other intangible assets of RMB143,709,000 and goodwill of RMB79,802,000 as of December 31, 2022 set out in the Accountants' Report in Appendix I to this Document.

(2) The Preferred Shares would have been converted into ordinary shares upon completion of [**REDACTED**]. The conversion of Preferred Shares would have been reclassified such preferred shares amounting to RMB589,179,000 from liabilities to equity and accordingly increased the unaudited pro forma adjusted consolidated net tangible assets of the Group as of December 31, 2022 by RMB589,179,000.

(3) The estimated [**REDACTED**] from the [**REDACTED**] are based on an estimated [**REDACTED**] of HK$[**REDACTED**], HK$[**REDACTED**] and HK$[**REDACTED**] per share, after deduction of the [**REDACTED**] fees and other related expenses payable by the Company and do not take into account any Shares which may be issued upon the exercise of the [**REDACTED**].

(4) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share is arrived at after adjustments referred in note 2 above and on the basis of [**REDACTED**] Shares are in issue, assuming that the Share Consolidation and the [**REDACTED**] has been completed on December 31, 2022 but does not take into account any Shares which may be sold pursuant to the exercise of the [**REDACTED**].

(5) For the purpose of this unaudited pro forma statement of adjusted net tangible assets attributable to owners of the Company, the balances stated in RMB are converted into HK$ at the rate of RMB1.00 to 1.1381.

(6) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to December 31, 2022.

NO MATERIAL ADVERSE CHANGE

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

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

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