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Yunkang Group Limited

云康集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2325)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2023

The board (the “**Board**”) of directors (the “**Directors**”) of Yunkang Group Limited (the “**Company**” or our “**Company**”, together with its subsidiaries and consolidated affiliated entities, the “**Group**” or our “**Group**”) is pleased to announce the unaudited condensed consolidated results of the Group for the six months ended June 30, 2023 (the “**Reporting Period**”), which have been reviewed by the Company’s audit committee (the “**Audit Committee**”) and approved by the Board on August 30, 2023.

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

FINANCIAL HIGHLIGHTS

	Six months ended June 30,		Change
	2023	2022	
	<i>RMB'000</i>	<i>RMB'000</i>	
	(Unaudited)	(Unaudited)	
Revenue	476,865	1,378,656	(65.4)%
– Diagnostic outsourcing services	254,438	680,362	(62.6)%
– Diagnostic testing services for medical institution alliances	197,876	650,700	(69.6)%
– Diagnostic testing services for non-medical institutions	24,551	47,594	(48.4)%
Cost of revenue	(295,200)	(727,584)	(59.4)%
Gross profit	181,665	651,072	(72.1)%
Profit before income tax	50,809	283,500	(82.1)%
Profit for the period	48,027	234,761	(79.5)%
Profit attributable to owners of the Company:	48,715	234,363	(79.2)%

	Six months ended June 30,		Change
	2023	2022	
	RMB	RMB	
	(Unaudited)	(Unaudited)	
Earnings per share			
Basic	0.08	0.44	(81.8)%
Diluted	0.08	0.44	(81.8)%

During the Reporting Period, the Group recorded a revenue of RMB476.9 million, representing a decrease of 65.4% compared to the same period in 2022. The decrease was primarily attributable to the impact of weaker market demand for diagnostic testing services, which resulted in a decrease in the revenue from the Group’s diagnostic testing services compared to the same period last year. As the Group pursues a development strategy focusing on “in-depth services and lean operations” in the future, we are developing our main businesses steadily by deepening our service systems and creating efficient operation systems.

During the Reporting Period, the revenue generated from diagnostic outsourcing services reached RMB254.4 million, representing a decrease of 62.6% compared to the same period in 2022, primarily due to the decrease in revenue from outsourced testing services compared to the same period last year as demand for diagnostic testing services declined nationwide.

During the Reporting Period, the revenue generated from diagnostic testing services for medical institution alliances reached RMB197.9 million, representing a decrease of 69.6% compared to the same period in 2022, primarily due to the impact of generally weaker market demand for diagnostic testing services, which resulted in a decrease in the scale of testing service business of the Group’s infectious disease centers compared to last year. During the Reporting Period, the Group was actively driving the increase in testing items of the polymerase chain reaction (“PCR”) testing platform of infectious disease centers by carrying out multiple types of PCR molecular testings on viral hepatitis, respiratory infections, gastrointestinal infections, urinary and reproductive tract infections, and reproductive genetics.

Diagnostic testing services for non-medical institutions are mainly provided through our outpatient clinics, serving individual customers who are general public and employees of our non-medical institution customers. During the Reporting Period, revenue generated from diagnostic testing services for non-medical institutions reached RMB24.6 million, representing a decrease of 48.4% compared to the same period in 2022. The decrease was primarily due to the impact of weaker market demand for diagnostic testing services nationwide.

During the Reporting Period, the Group recorded a profit of RMB48.0 million, representing a decrease of 79.5% compared to the same period in 2022. The decrease was primarily due to the decrease in revenue and gross profit margin resulting from the decline in the Group’s business scale.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2023

		For the six months ended	
		June 30,	
		2023	2022
		RMB'000	RMB'000
	<i>Notes</i>	(Unaudited)	(Unaudited)
Continuing operations			
Revenue	4	476,865	1,378,656
Cost of revenue		<u>(295,200)</u>	<u>(727,584)</u>
Gross profit		181,665	651,072
Other income		6,052	5,068
Other gains/(losses), net	5	31,091	(190)
Selling expenses		(86,874)	(219,076)
Administrative expenses		(80,512)	(128,630)
Fair value changes on financial assets at fair value through profit or loss		18,713	–
Net impairment losses on financial assets		<u>(4,274)</u>	<u>(20,917)</u>
Operating profit		65,861	287,327
Finance costs, net	6	<u>(15,052)</u>	<u>(3,827)</u>
Profit before income tax		50,809	283,500
Income tax expenses	7	<u>(2,782)</u>	<u>(48,739)</u>
Profit for the period		<u>48,027</u>	<u>234,761</u>
Profit attributable to:			
– Owners of the Company		48,715	234,363
– Non-controlling interests		(688)	398
		<u>48,027</u>	<u>234,761</u>

	For the six months ended	
	June 30,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
<i>Notes</i>	(Unaudited)	(Unaudited)
Other comprehensive income, net of tax		
Items that will not be reclassified to profit or loss:		
– Changes in fair value of financial assets designated at fair value through other comprehensive income, net of tax	–	–
	<hr/>	<hr/>
Total comprehensive income for the period	48,027	234,761
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Total comprehensive income attributable to:		
– Owners of the Company	48,715	234,363
– Non-controlling interests	(688)	398
	<hr/>	<hr/>
	48,027	234,761
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Earnings per share attributable to the owners of the Company		
Basic and diluted (<i>RMB</i>)	0.08	0.44
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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2023

		As at June 30, 2023 <i>RMB'000</i> (Unaudited)	As at December 31, 2022 <i>RMB'000</i> (Audited)
	<i>Notes</i>		
Non-current assets			
Property and equipment		410,904	420,602
Intangible assets		3,156	3,756
Prepayments and other receivables	9	185,258	15,658
Financial assets at fair value through other comprehensive income (“FVOCI”)		84,341	84,341
Financial assets at fair value through profit or loss (“FVTPL”)		163,623	160,241
Deferred income tax assets		56,586	53,911
		<u>903,868</u>	<u>738,509</u>
Current assets			
Inventories		19,121	41,317
Trade receivables	9	1,942,533	2,432,165
Prepayments and other receivables	9	28,188	118,749
Financial assets at FVTPL		290,046	642,569
Restricted cash		125,884	145,926
Cash and cash equivalents		1,268,575	787,742
		<u>3,674,347</u>	<u>4,168,468</u>
Current liabilities			
Borrowings		685,038	363,669
Trade and other payables	10	1,249,606	1,492,079
Current income tax liabilities		40,036	85,433
Lease liabilities		34,658	36,658
Deferred revenue		1,745	1,645
		<u>2,011,083</u>	<u>1,979,484</u>

	As at June 30, 2023	As at December 31, 2022
	RMB'000	RMB'000
<i>Notes</i>	(Unaudited)	(Audited)
NET CURRENT ASSETS	1,663,264	2,188,984
Non-current liabilities		
Borrowings	233,439	328,115
Lease liabilities	48,522	57,677
Deferred income tax liabilities	2,809	2,122
	284,770	387,914
NET ASSETS	2,282,362	2,539,579
Equity		
Share capital and share premium	626,510	743,248
Shares held for employee share scheme	(188,525)	–
Other reserves	936,510	936,510
Retained earnings	901,220	852,505
Non-controlling interests	6,647	7,316
	2,282,362	2,539,579

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2023

1. General information

The Company was incorporated in the Cayman Islands on July 20, 2018 as an exempted company with limited liability under the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The address of the Company's registered office is P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman KY1-1205, Cayman Islands.

The Company is an investment holding company, and its subsidiaries, are primarily engaged in the provision of diagnostic testing services in the People's Republic of China (the "PRC" or "China").

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on May 18, 2022 (the "Listing").

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These unaudited condensed consolidated financial statements have been approved by the Board on August 30, 2023.

2. Basis of preparation and accounting policies

The financial information for the six months ended June 30, 2023 has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), including compliance with Hong Kong Accounting Standard 34 Interim Financial Reporting ("HKAS 34"), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The financial information does not include all the notes of the type normally included in an annual financial statement. Accordingly, it should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2022, which have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") as issued by the HKICPA and any public announcements made by the Company during the Reporting Period.

The accounting policies applied to the preparation of the financial information are generally consistent with those applied in the preparation of the Group's consolidated financial statements for the year ended December 31, 2022.

The adoption of the new and amended standards which are effective for annual reporting period commencing January 1, 2023 does not have any significant impact on the Group's significant accounting policies and the presentation of the financial information.

In addition, certain amended standards and annual improvement that have been published are not yet mandatory for the current reporting period and have not been early adopted by the Group. These amended standards and annual improvements are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3. Critical accounting estimates and judgement

The preparation of the financial information in accordance with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing the financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied in the preparation of the Group's consolidated financial statements for the year ended December 31, 2022.

4. Revenue

- (a) During the Reporting Period, the Group continued to engage in provision of diagnostic testing services. Revenue generated during the Reporting Period is analyzed as follows:

	For the six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<i>Recognized at a point in time</i>		
Diagnostic outsourcing services	254,438	680,362
Diagnostic testing services for medical institution alliances	197,876	650,700
Diagnostic testing services for non-medical institutions	24,551	47,594
	<u>476,865</u>	<u>1,378,656</u>

- (b) Information about major customers

All the revenues derived from single external customers were less than 10% of the Group's total revenue during the Reporting Period (2022: same).

5. Other gains/(losses), net

	For the six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Exchange gain – net	9,179	–
Gains/(losses) on disposal of property and equipment	743	(40)
Gains on redemption of financial assets at FVTPL	22,225	–
Others	(1,056)	(150)
	<u>31,091</u>	<u>(190)</u>

6. Finance costs, net

	For the six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bank interest income	2,960	4,153
Interest on interest-bearing borrowings	(16,039)	(6,319)
Interest on lease liabilities	(1,973)	(1,661)
	<u>(15,052)</u>	<u>(3,827)</u>

7. Income taxes

	For six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax	5,054	52,890
Deferred income tax	(2,272)	(4,151)
	<u>2,782</u>	<u>48,739</u>

The Group's principal applicable taxes and tax rates are as follows:

Cayman Islands

Under the prevailing laws of the Cayman Islands, the Company is not subject to tax on income or capital gains. In addition, no Cayman Islands withholding tax is payable on dividend payments by the Company to its shareholders.

Hong Kong

Hong Kong profits tax rate is 16.5% since April 1, 2018 when the two-tiered profits tax regime took effect, under which the tax rate is 8.25% for assessable profits on the first HK\$2 million and 16.5% for any assessable profits in excess of HK\$2 million. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the six months ended June 30, 2023 (2022: same).

PRC Corporate Income Tax ("CIT")

CIT was made on the estimated assessable profits of the entities within the Group incorporated in the PRC and was calculated in accordance with the relevant tax rules and regulations of the PRC after considering the available tax refunds and allowances. The general CIT rate is 25% for the six months ended June 30, 2023 (2022: same).

Certain entities within the Group, which generated most of the Group's profits, have been approved as high technology enterprises under the relevant tax rules and regulations, and accordingly, are subject to a reduced preferential CIT rate of 15% for the six months ended June 30, 2023 (2022: same).

Certain of the Group's entities in the PRC meet the standards for small enterprises under the relevant tax rules and regulations, and accordingly, the part of their taxable income not exceeding RMB3 million is subject to a reduced CIT rate of 20%.

8. Earnings per share

(a) Basic earnings per share

The basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the six months ended June 30, 2023, less the shares held under the restricted share unit scheme adopted by the Company on November 23, 2022 (the “**2022 RSU Scheme**”) during the same period of approximately 15,101,643 shares (2022: nil).

	For the six months ended June 30,	
	2023	2022
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (<i>RMB'000</i>)	<u>48,715</u>	<u>234,363</u>
Weighted average number of ordinary shares in issue less shares held under the 2022 RSU Scheme during the period	<u>619,248,072</u>	<u>527,710,850</u>
Basic earnings per share attributable to the owners of the Company (<i>RMB</i>)	<u>0.08</u>	<u>0.44</u>

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The Company had no dilutive potential shares in issue, thus the diluted earnings per share for six months ended June 30, 2023 and 2022 are the same as basic earnings per share of the respective periods.

9. Trade and other receivables and prepayments

	As at June 30, 2023 <i>RMB'000</i> (Unaudited)	As at December 31, 2022 <i>RMB'000</i> (Audited)
Trade receivables		
– Third parties	2,181,025	2,671,922
– Related parties	408	369
	<u>2,181,433</u>	<u>2,672,291</u>
(Less): impairment loss allowance	(238,900)	(240,126)
	<u>1,942,533</u>	<u>2,432,165</u>
Prepayment for an investment	169,999	–
Prepayment to third party suppliers	17,994	14,976
Loan receivables	–	100,000
Other tax recoverable	3,168	2,719
Deposit receivables	19,951	15,065
Cash advance to employees	1,090	474
Amounts due from related parties	1,592	1,470
	<u>213,794</u>	<u>134,704</u>
(Less): impairment loss allowance	(348)	(297)
	<u>213,446</u>	<u>134,407</u>
	<u><u>2,155,979</u></u>	<u><u>2,566,572</u></u>

(a) The aging of trade receivables based on recognition date at the end of periods indicated is as follows:

	As at June 30, 2023 <i>RMB'000</i> (Unaudited)	As at December 31, 2022 <i>RMB'000</i> (Audited)
Up to 180 days	360,435	1,655,558
181 days to 1 year	1,277,717	734,521
1 to 2 years	436,094	235,267
2 to 3 years	80,129	24,233
More than 3 years	27,058	22,712
	<u>2,181,433</u>	<u>2,672,291</u>

(b) A subsidiary of the Company entered into an agreement with an independent third party to acquire equity interests of two private companies in the PRC at a consideration of RMB 169,999,000 in total. There is industry synergy between the Company and the target companies that focus on medical industry. All the applicable percentage ratios as defined under Chapter 14 of the Listing Rules in relation to the acquisition were less than 5%.

(c) The Group's trade and other receivables were denominated in RMB and their carrying amounts approximated their fair values.

10. Trade and other payables

	As at June 30, 2023 <i>RMB'000</i> (Unaudited)	As at December 31, 2022 <i>RMB'000</i> (Audited)
Trade payables		
– Third parties	329,521	520,617
– Related parties	649,170	680,058
	<u>978,691</u>	<u>1,200,675</u>
Other payables		
– Related parties	16,700	13,007
– Marketing and promotion expenses payables	29,100	60,371
– Decoration expenses payables	28,611	35,546
– Accrued expenses	10,689	34,202
– Listing expenses payables	–	4,522
– Others	1,473	13,416
	<u>86,573</u>	<u>161,064</u>
Accrued staff costs	46,301	105,805
Other taxes payable	21,303	24,535
Dividend payables	116,738	–
	<u>1,249,606</u>	<u>1,492,079</u>

(a) The aging of trade payables based on goods and services received is as follows:

	As at June 30, 2023 <i>RMB'000</i> (Unaudited)	As at December 31, 2022 <i>RMB'000</i> (Audited)
Up to 6 months	126,453	717,981
6 months to 1 year	458,492	348,081
1 to 2 years	387,666	131,332
2 to 3 years	3,290	2,806
More than 3 years	2,790	475
	<u>978,691</u>	<u>1,200,675</u>

(b) The Group's trade and other payables were dominated in RMB and their carrying amounts approximated their fair values.

11. Dividends

On June 28, 2023, the shareholders at the general meeting approved a final dividend for the year ended December 31, 2022 of HK\$0.22 per share to shareholders whose name appeared on the register of members of the Company on July 5, 2023. Accordingly, cash dividends totalling HK\$133,353,000 (equivalent to RMB116,738,300) are expected to be distributed after deducting the dividends to be received by the shares held by the trustee of the 2022 RSU Scheme on August 25, 2023. These dividends will be distributed out of the Company's share premium.

The Board did not declare any interim dividend for the six months ended June 30, 2023 (June 30, 2022: HK\$0.088 per share).

12. Contingent liabilities

As at June 30, 2023, the Group did not have any material contingent liabilities.

13. Subsequent events

Save as disclosed in this announcement, no material subsequent events took place after June 30, 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

We are a comprehensive and professional medical operation service provider in China, which is committed to focusing on the health needs of customers, providing competitive solutions and services, and creating a happy life for the public. The Group has gradually become a leading medical operation platform through professional medical diagnosis services, strong standardization capabilities, and innovative business model of diagnostic testing services for medical institution alliances. The Group's service portfolio mainly includes diagnostic outsourcing services, diagnostic testing services for medical institution alliances and diagnostic testing services for non-medical institutions.

INDUSTRY OVERVIEW

In recent years, driven by supportive social and technological factors and policies, China's third-party diagnostic testing service market is growing fast.

With regard to social factors, the rising share of healthcare expenditure in gross domestic product ("GDP"), aging population, increasing number of chronic and cancer patients, nationwide promotion and reform towards payment based on the diagnosis related groups/diagnosis intervention packet ("DRG/DIP") in health insurance, the separation of technologies and consumables, and the further increased market penetration of independent clinical laboratories ("ICL") in China will promote the development of the third-party diagnostic testing industry.

- ***Further surge in demand for public health and rising percentage of health expenditure in GDP***

In 2023, national health expenditure reached RMB2,421.1 billion, representing an increase of nearly RMB167.0 billion compared with RMB2,254.2 billion in 2022, accounting for 8.8% of China's GDP. Despite the increase, China's healthcare investment as a percentage of its GDP is still significantly lower than that of developed countries such as the United States, Germany and Japan. In the post-epidemic era, China is committed to further strengthening its healthcare system by enhancing the public's awareness of disease prevention and control, developing medical infrastructure and further increasing its medical and healthcare investment.

- ***Aging and the growing number of patients with chronic diseases and cancers***

According to the National Bureau of Statistics of China, elderly people aged 65 or above reached approximately 14.9% of China's population in 2022, indicating that China is becoming a deeply aging society. As the population continues to age, the number of patients with chronic diseases and cancers will continue to increase in China, resulting in the public's growing demand for healthcare services with increased health awareness and an expanding medical service market in China.

- ***Promotion of DRG/DIP payment method reform nationwide driven by medical insurance policy***

The nationwide adoption of the DRG/DIP medical insurance policy has led to a payment method reform in China's healthcare industry. Hospitals at all levels are incentivized to prioritize cost control, and their medical technology departments such as the examination department and pathology department would also put greater emphasis on cost control. This led to an increased demand for outsourcing diagnostic testing services from hospitals. As a result, third-party testing institutions with advanced technology and economies of scale can leverage their advantages to rapidly seize market share and enjoy significant increase in market penetration in the industry.

- ***Separation of technologies and consumables: analysis on the classification and management of technologies and consumables***

In 2020, the National Healthcare Security Administration of China stated that it would explore the feasibility of "separation of technologies and consumables" in response to Proposal No. 9931 from the Third Session of the 13th National People's Congress. In 2021, eight departments including the National Healthcare Security Administration, National Health Commission, and National Development and Reform Commission jointly issued the Pilot Plan for Deepening the Reform of Medical Service Prices. Experts said that the separation of technologies and consumables can better reflect the value of medical personnel's technical services, and that the separation of medical consumables can reduce the operating costs of hospitals through medical insurance negotiations and centralized procurement. The separation of technologies and consumables will lead to a decrease in the standard prices of diagnostic testing, and those less profitable projects or functions of hospitals will be outsourced or operated under joint initiatives. For third-party diagnostic testing institutions, costs can be reduced by leveraging their economies of scale. Accordingly, those who are able to strike a balance among cost control, timeliness and quality will seize more industry opportunities from the separation of technologies and consumables.

- ***Further increase in ICL market penetration in China***

Compared with other developed countries, the market size of ICL in China is still in its infancy, leaving ample room for further development and growth. Overall, there is a scarcity of healthcare resources in China, and the distribution of healthcare resources is geographically uneven. The development of medical institutions is unbalanced, with tertiary hospitals playing a dominant role in the provision of hospital medical services. Through professionalized and scalable operations, third-party testing institutions can extend their service networks to the county and town levels, offering the same quality as those provided by tertiary hospitals. This can improve the standard and service capacity of primary healthcare in response to the uneven distribution of healthcare resources.

Regarding technological factors, the rapid development of biotechnologies has led to an accelerated revamp of the industry's technology. With the increasingly pivotal role of diagnosis, testing technologies are constantly evolving and advancing. Conventional technologies such as PCR and next-generation sequencing (NGS) are continually being upgraded, while emerging technologies such as mass spectrometry and multi-omics are driving the development of the industry forward. Precision medicine has also become a major trend of medical treatment. Biomedical testing, such as genetic testing, is conducted in addition to traditional routine examinations, the results of which are analyzed using big data. By tailoring treatment plans for patients through precision medicine, treatment methods or medications can be more precise, thereby improving the chances of recovery while reducing unnecessary side effects. Being pioneers of emerging technologies, third-party testing institutions can provide clinical practice with more competitive diagnostic products, thereby improving the national standard of medical and healthcare services. The application of digital technology in the healthcare industry, along with the integration and innovation of biotechnology and next-generation digital technology, is driving reforms in the industry. The digital transformation of the healthcare industry is at a critical stage, with the application of information technology and networking becoming the norm of leading third-party testing institutions. The future development of the industry is bound to be deeply integrated with digital technologies, such as big data and artificial intelligence ("AI").

With regard to policy factors, in recent years, the PRC government has promulgated a series of regulations to promote the system of medical institution alliances and a series of supportive healthcare policies, including the Guidance on Promoting Medical Institution Alliances in China (《關於推進醫療聯合體建設和發展的指導意見》) issued by the State Council in April 2017 and the Interim Measures on Medical Institution Alliance Management (《醫療聯合體管理辦法(試行)》) issued by the National Health Commission of the PRC in July 2020, the Guidelines for Establishing Pilot Compact County Medical and Healthcare Alliances (《關於開展緊密型縣域醫療衛生共同體建設試點的指導方案》) issued in May 2019, the Notice on the Launching of Pilot Work on Self-developed In Vitro Diagnostic Reagents for Use by Medical Institutions (《關於開展醫療機構自行研製使用體外診斷試劑試點工作的通知》) issued in 2022, the Government Work Report 2023, the Opinions on Further Improving the Medical and Health Service System (《關於進一步完善醫療衛生服務體系的意見》) issued in March 2023, and the Pilot Scheme for the Construction of Compact Urban Medical Institution Alliances (《緊密型城市醫療集團建設試點工作方案》) issued in January 2023. The promulgation and implementation of these policies will (i) further enhance the capacity of public health services; (ii) promote the construction of medical centers, urban medical institution alliances and county-level medical alliances, highlighting the county-wide leading position of county-level hospitals; and (iii) promote hierarchical diagnosis and treatment and lower-tier channelling of medical resources, driving the demand for diagnosis and testing services of medical institution alliances.

Driven by multiple favorable factors, the big health industry, especially the third-party testing sector which emphasizes quality, cost and efficiency, enjoys cost-effective advantages and is poised to seize promising development opportunities.

Our Competitive Advantages

We believe that the following strengths distinguish us from our competitors, which have contributed to our historical achievements and will drive our future growth:

- ***Construction of a standard, process-oriented and digital intelligent platform***

With a focus on clinical needs and disease-oriented, the Group has established six major clinical diagnostic support centers, including reproductive genetics, solid tumors, clinical immunity, infectious diseases, blood diseases, cardiovascular diseases and other areas, and has established seven operation modules (including standardized construction of laboratories, technology innovation and research transformation, construction and supporting of professional disciplines, supply chain management, information system of smart laboratories, quality management and medical logistics services) and eight clinical laboratory technology platforms, including high-throughput sequencing, mass spectrometry, ultra-micro pathological morphology, flow cytometry, gene chip, molecular diagnostics, cytogenetics and digital pathology. To date, the Group has become an integrated medical operation service platform, providing medical institutions at all levels with professional, efficient, accurate and convenient precision medical verification and pathology diagnosis services.

- ***Quality engine – aligning with international standards and empowering hospitals with professionalism to build a quality medical diagnostic service system***

Adhering to the strategic concept of “Quality is the Lifeline”, we are committed to providing customers with professional, precise, efficient and convenient medical and health services by actively promoting the lean management of production and operation, creating a quality culture of “everyone participates for continuous improvement”. Adapting international standards and guidelines to China, we are the only execution partner of the healthcare business of the Clinical & Laboratory Standards Institute (CLSI) in China and the only medical institution in China participating in the promotion of the Quality and Competency Standards Guideline for Primary Medical Laboratories in China. We have actively obtained recognition of a number of authoritative standards in China and abroad and established a series of laboratory and logistics standard operating procedures, striving to build world-leading laboratories in line with international standards, and continuously improve the quality of our products and services. As one of the first medical service companies to build medical laboratories with international standards, we have established independent medical laboratories with ISO15189 quality control system accreditation and CAP accreditation in Southern, Eastern and Southwestern China. The Group has obtained various domestic and overseas quality accreditations including CAP, ISO15189, ISO9001, CMA, CMMI and ISO27001. By the end of the Reporting Period, we had successfully completed the ISO15189 and CAP accreditation in Guangzhou, Chengdu and Shanghai, and the CMA and ISO9001 accreditation in Guangzhou. In addition, the Group empowers hospitals with its expertise to create a high-quality medical diagnostic service system. During the Reporting Period, the Group assisted multiple hospitals in passing the ISO15189 on-site assessment.

- ***Digital operations – cloud-based systems to support lean operations***

The quality management and efficiency enhancement among the laboratories of the Group across China are inseparable from the digital operation system. In 2022, the Group successively rolled out 10 digital operation systems such as “Tengyun”, fully integrating the Group’s sales management system, human resources system, training system, settlement system, general ledger system, fixed asset system, warehousing system, logistics system and customer service system, etc. The Group’s

digital operation will embrace a new era. Analyzing operation big data can help us establish a standardized operation indicator system and identify fundamental issues, have an insight into our business and improve the operations, facilitating the Group to deepen our service marketing and lean operations continuously. At the same time, the Group spared no efforts to support the innovative application of digital information technologies such as 5G and AI in the medical big data analysis and clinical diagnosis and treatment, took measures including building information platforms to continuously improve the accuracy and efficiency of laboratory testing, and created new digital medical scenarios to facilitate the innovative development of clinical services.

BUSINESS REVIEW

During the Reporting Period, the Group achieved positive results in the following business aspects:

- ***Stable development of PCR co-laboratories business***

PCR testing platforms are widely used in the field of infectious disease testing. During the COVID-19 epidemic, the Group co-built a laboratory service network based on PCR testing platforms, and established a good cooperative relationship with hospital customers. After the COVID-19 epidemic substantially stabilized, the Group has built upon existing foundation and quickly continued to offer tailored comprehensive solutions to hospitals in relation to the establishment of standardization processes, quality management systems and new technology platforms, promotion of clinical applications, and talent pipeline development, thereby facilitating the development of clinical business and hospitals. Through concerted efforts, many hospitals which are parties to joint initiatives have achieved stable development for PCR co-laboratories, conducting PCR molecular testing for items including viral hepatitis, respiratory infections, gastrointestinal infections, genitourinary infections and reproductive genetics.

- ***Returning to the principal business of diagnostic testing, strengthening the integration of multiple-technology platforms and enhancing the capabilities for research and development (“R&D”) as well as technology conversion***

The Group has established disciplinary capabilities in multiple disease areas, including infectious diseases, reproductive health, genetic diseases, solid tumors, blood diseases, clinical immunology, cardiovascular and endocrinology. For the Group’s diagnostic testing items, we adopt disease line dimensions in our classification system as per the specialized classification habits of our end clinical customers. Each disease line is divided into three levels: “disease line – sub-series – testing items”. We match the diagnostic needs of specialized clinical disciplines through various key sub-series. Furthermore, taking customers’ needs into consideration, we thoroughly check and analyze key items in each disease line to identify demands for new project development and optimize the key testing items. Through lean management of the entire process of laboratory services, we continuously improve products and services in terms of testing performance, delivery timeliness, and clinical consultations. During the Reporting Period, the Group launched more than 150 new testing projects, providing more than 2,000 testing items.

During the Reporting Period, the Group set up two new independent laboratories in Changsha, Hunan and Haikou, Hainan in addition to 10 existing independent laboratories, totaling 12 independent laboratories, achieving synergies with the Group’s joint initiatives.

- ***Continuously expanding and deepening cooperation with tertiary and secondary hospitals, consolidating and enhancing the Group's leading position in the industry***

The Group has achieved fruitful results in supporting the construction and development of medical institution alliances, contributing to the acceleration of medical institution alliance reforms. By jointly establishing on-site diagnostic centers in leading hospitals in various regions, expanding their testing items and improving their testing capabilities, we helped such hospitals provide standardized testing services for all their member hospitals in medical institution alliances, providing grassroots hospitals and patients with convenient and professional testing services with a wide range of testing items, the results of which are mutually recognized.

The Group continuously expands and deepens cooperation with tertiary and secondary hospitals. As at June 30, 2023, the Group had 410 on-site diagnostic centers, covering a total of 1,167 medical institutions and over 3,700 medical and non-medical customers. During the Reporting Period, the revenue from secondary and tertiary hospitals represented nearly 77% of the Group's total revenue.

During the joint collaboration with hospitals, the Group not only provided "3+1" (i.e. tumor, infection, genetics and reproduction + precision medicine) technical system support but also extended support to the in-depth service system, including the operation of diagnostic centers under regional medical institution alliances, introduction of new technologies/new products, digital construction services for specialized clinical disciplines, medical cold chain logistics services, quality control services and supply chain services, so as to empower the development of hospitals with in-depth services.

With regard to logistics systems, the Group's logistics services have reached down to town level. A logistics management system for test samples has been established to achieve end-to-end cold chain transportation and visual-based tracking as well as professionalism in terms of equipment, and to ensure the quality of test samples and safety of transportation. During the Reporting Period, 98.7% of the Group's test samples were delivered within 12 hours within the same province and 36 hours across provinces, and 100% of the test reports were delivered within 24 hours. With regard to medical cold chain logistics, we have further improved our logistics compliance management capabilities and successfully renewed the Medical Device Operation Permit for seven years under the new requirements of the drug administration authorities, helping to standardize the operation of the Group's diagnostic testing business.

- ***Tapping deeper into lower-tier markets, seizing the policy opportunities of county-level medical communities to promote their development***

In recent years, national policies have been promoting the establishment of county-level medical alliances to address the deficiencies in grassroots healthcare. The purpose is to address certain issues, including insufficient service capacity, lack of technical capabilities and funds, insufficient integration of tiered diagnosis and treatment system, weak information infrastructure at the grassroots level, and inadequate comprehensive regulatory measures. The healthcare system is vigorously channeling medical resources to lower-tier cities, which means medical institutions at all levels, from tertiary hospitals to town-level health centers, will have the incentive and the need to procure services from third-party medical operation service providers. The industry thereby presents unprecedented opportunities.

The Group has long been planning for county-level medical communities and created a number of benchmark projects. Taking the Longmen County General Hospital, a typical example of a county-level medical community in Guangdong Province, as an example, the Group has been engaged in deep cooperation with the hospital for five years. During this five-year period, we have built the Longmen county's own county-level pathology diagnostic center and resolved the hospital's pathology diagnostic shortcomings. We provided chained services of "personnel-platform-experts-logistics" and gained high recognition from the hospital in every aspect from service quality and testing response speed to professional report interpretation.

Over the years, the Group has leveraged its advantages in service platform to support primary medical institutions throughout the region through remote consultations, technical assistance, expert visits, academic training and other forms. We established a county-level medical service network equipped with "integrated management and standardized services" and empowered the construction of the county-level medical community through lean and comprehensive "technology + service" solutions.

- ***Customer-oriented digital intelligent R&D platform – the Yunkang Digital Remote Pathology Consultation System***

As information technology develops, remote pathology consultation will play an increasingly important role in the medical industry. The advantages of remote pathology consultation include addressing the shortage of pathologists, optimizing the allocation of medical resources, promoting tiered diagnosis and treatment, assisting in clinical teaching and research, improving the standards of primary healthcare, saving the time and economic costs for medical treatment, strengthening regional exchanges and cooperation, and channeling medical resources to lower-tier cities so that severe illnesses can be treated locally without the need for cross-county travel.

The Group's remote pathology consultation system focused on customer service. We have upgraded the system based on the testing needs of diseases such as gynaecologic tumors, liver-biliary-pancreatic tumors, digestive system tumors, urological tumors, lung cancer and breast cancer so as to increase the efficiency of diagnosing doctors for reviewing slides, shorten the reporting time, improve information security and achieve real-time monitoring and online management of pathology test samples of collaborating hospitals. At the same time, this reduces patient waiting time for examinations, expedites clinical surgery turnover and saves clinical medical resource consumption.

During the Reporting Period, by improving the report review process for publishing reports, we accelerated the review time and reduced the waiting time for our customers' clinical doctors to receive pathology report results, thereby enhancing the timeliness of the reports. At the same time, the preparation of the function extension of the remote pathology platform system allowed us to achieve seamless integration between the remote pathology system and the AI software, enabling remote aided diagnosis for cervical liquid-based cytology testing, etc. In the development of new pathology projects, we upgraded projects focusing on testing needs of gynaecological tumors, liver-biliary-pancreatic tumors, digestive system tumors, urological tumors, lung cancer, breast cancer and other relevant diseases. The Group has a team comprising hundreds of domestic and foreign pathologists and has assisted doctors in issuing digital pathological diagnosis reports, helping hospitals raise departmental efficiency.

- ***Testing services productive platform focusing on cutting-edge technologies – the Yunkang Precision Medicine Center***

Precision medicine is a personalized approach to healthcare and clinical decision-making for patients based on their intrinsic biological information, clinical symptoms, and signs. In addition to traditional testing, biomedical testing such as tumor testing or patients' genetic testing is conducted. Personal data are then compared to those from a human genetic database and analyzed using big data to help identify the most suitable treatment method or medication for patients. The main purpose is to find out a personalized treatment method with the highest efficacy and fewer side effects.

The Group believes that as increasing number of patients seek personalized medical solutions, precision medicine will continue to gain prominence in the medical industry. Diagnostic testing plays a vital role in advancing precision medicine, as it allows doctors to accurately assess patients' symptoms and tailor treatment plans accordingly. With the Group's experience in diagnostic testing and its leading position in the market, it has taken the initiative to leverage this industry opportunity as a first mover. During the Reporting Period, the Group established four new precision medicine centers.

- ***Joint innovation platform for diagnostic testing***

With the medical reform entering a stage of premium development, the Group is determined to adapt to the accelerating trend of the global bioeconomy, meet the rapidly growing demand for the health and well-being of the people, and accomplish the important national strategy of achieving high-level technological self-reliance. The Group actively fosters innovation and strongly advocates the deep integration of industry, academia, research and services in the medical industry, rapidly enhancing the quality and efficiency of medical and health services.

During the Reporting Period, the Group actively responded to relevant policy guidelines. The Group gathered industry clusters that encompassed upstream and downstream stakeholders in "in vitro diagnostics" ("IVD") equipment and reagent R&D and manufacturing, professional cold chain logistics, data services and academic support services, and established a powerful collaboration with the Laboratory Department of Guangdong Provincial People's Hospital, which possesses robust research capabilities and abundant quality medical and health resources, to establish the Diagnostic Testing Joint Innovation Platform for the purpose of jointly exploring laboratory developed test ("LDT") innovation projects, providing practical experience for national policies and setting up a national-level demonstration of industry, academia, research, and service integration.

During the Reporting Period, the Group added over 30 new national and provincial-level experts to its expert team, joined multiple alliances for severe diseases, and set up nearly 10 sub-platforms.

- ***Robust project to reduce costs, increase efficiency and enhance operational efficiency***

During the Reporting Period, the Group launched the Robust Project Scheme to improve efficiency by optimizing cost allocation. Pursuant to the scheme, we reduced the cost during the COVID-19 epidemic by conducting data analysis at key junctures to identify cost disparity, and established benchmarking standards. At the same time, the scheme aimed at regulating the supervision mechanism, implementing efficient monitoring and establishing an internal auditing system. Through examination and analysis of quality, timeliness and cost control points in the value creation process of the Group, we constantly optimized and improved the quality and efficiency of our operations. With the use of data, the Group has established management protocols based on standards, rules and mechanisms as core elements with implementation as the starting point, aiming at establishing a management system with clear objectives, specific tasks and well-defined responsibilities to enhance operational efficiency and thereby enhancing the Group's overall operational efficiency.

DEVELOPMENT STRATEGIES

Strategic engine: a development strategy focusing on in-depth services and lean operations

- ***In-depth services***

Guided by the business principles of “in-depth services and lean operations”, the Group will constantly place emphasis on “in-depth services” with a theme of “deepening the in-depth service system, building an efficient operation system and achieving quality growth” concentrating on connotative development. Aiming to provide professional, accurate, efficient and convenient medical and health services, the Group is committed to advancing the integration of medical and health service systems, promoting hierarchical diagnosis and treatment and enhancing the capability and quality of medical services, thereby benefiting our communities through our contributions made.

In terms of in-depth services, the Group's in-depth services marketing place its technical platforms, expert resources, product solutions, business cooperation solutions, professional logistics capabilities, digital operation capabilities and market promotion capabilities in close proximity to its customers, in order to build an integrated customer-relationship system where allocation of human resources is based on advantages and profit is shared based on contributions. The core value of this system lies in joint construction based on cooperative collaboration, symbiotic synergy and shared development. Service products under the in-depth services system are most critical to creating value for customers, including core products of technology platform solutions that meet customers' core value propositions, and value-added services that improve customers' operational efficiency and provide a positive working experience.

The Group will start with collaborations through the Diagnostic Testing Joint Innovation Platform, the specialty alliance and telemedicine cooperation networks, as well as the “industry-academia-research-healthcare” transformation. We will then continue to deepen the specialty alliance and telemedicine collaboration networks with high-level hospitals serving as core entities, the urban medical institution alliances focusing on municipal and district-level leading hospitals as well as the county-level medical alliances emphasizing county-level leading hospitals.

The Group has been striving to be a pioneer and leader in the establishment of national medical institution alliances since its establishment. Leveraging its advantages in the industry chain, experts and technical resources, the Group has accumulated years of experience in building a medical institution alliances network and platform, optimizing the medical institution alliances service model, empowering primary medical institutions and benefiting patients. In the future, the Group will continue to intensify its business network of medical institution alliances by deepening, strengthening and expanding business on its existing basis. In addition, with the advantages of our technology platform and past successful experience, coupled with the deepening and implementation of digital operation platform, professional logistics platform and lean management concept, our technical strength and operational capabilities can meet the multi-level and comprehensive needs of urban medical groups and county-level medical alliances in the field of testing and diagnosis. We expect to leverage our first-mover advantage to promptly integrate into the construction of urban medical institution alliances and county-level medical alliances, with a view to bringing greater benefits to the shareholders of the Company (“**Shareholders**”).

- ***Lean operations***

The Group will take its products as key points to do a good job in the overall management of customers, boosting a general lean management with the “7S” Project and Robust Project as the starting point.

In terms of lean operations, the Group’s lean operations are based on the lean management principle under which “everyone participates for continuous improvement”, and we have achieved and maintained industry-leading standards in the three major areas of quality, costs and efficiency. “Lean” refers to the four dimensions involving specialization, standardization, processtization and digitalization. Specialization means having a spirit of continuous improvement and striving for excellence, aiming to achieve maximum output with minimal costs. Standardization involves establishing principles, rules and indicators for operations, and continuously optimizing and improving them. Processtization is to optimize the value creation process of the enterprise and solidify process accountability. Digitalization is to identify opportunities and problems based on digital insights using the Group’s ten digital clouds, so as to seize value-creation opportunities and constantly improve operational efficiency. In terms of on-site management, the Group makes use of the 7S management tools (sorting, rectification, sweeping, cleaning, saving, safety and quality) to eliminate redundancy, reduce waste and leakage, establish 7S management standards and improve the lean management quality of all employees. In terms of process rule formulation, we sort out the value creation processes, identify key control points for quality, costs and efficiency, establish standards and goals based thereon, and develop mechanisms for improvement, so as to ensure the achievement of lean management goals.

We are committed to offering standardized services and products and tackling the differences of serving individuals with such services and products. Through a variety of methods such as market information, unmet medical needs, field research, scenario simulation and introduction of new technologies, the Group can extensively explore customer needs and form solutions in various dimensions. Moreover, the contents of such solutions will be divided into relatively independent components for modularization and standardization. Products can be assembled quickly according to the actual needs of customers. In the second half of 2023, we will continue to promote this strategy, intensify and improve our customer service system through procedures such as identifying needs, formulating solutions, and modularizing and standardizing solutions.

The Group plans to expand its portfolio of diagnostic capabilities, particularly in the fields of oncology, genetic diseases, infectious diseases and genetic pharmacology. In these fields, the Group intends to continue to improve diagnostic testing technology and upgrade equipment. By continuously expanding its capabilities, the Group is also committed to collaborating with hospitals to provide precision medical solutions to patients.

The Group strives to build an end-to-end digital operating platform based on sample streams. Relying on end-to-end business data, we establish standard indicators, trace the quality of samples to strengthen management and gain insight into opportunities for business improvement. The digital operation platform is the information source of lean operations and the basic support for the construction of standards, which refers to the closed loop formed by logistic services of hospital receiving samples, laboratory issuing reports and customer giving feedback on sample quality. In the entire closed loop, the integrity and accuracy of the data at several process nodes, such as hospital receiving samples, logistics transportation, sample preprocessing, sample testing, report issuing and provision of opinions and feedback on quality, must be guaranteed. We plan to spend two to three years to update and improve the digital platform of our laboratories.

BUSINESS OUTLOOK

To achieve our long-term objectives, which is to help optimize the allocation of medical resources and accelerate industry development, the Group adopts active development strategies, which include but are not limited to the following:

- ***Promoting the joint construction of medical institution alliances and county-level medical alliances to assist in the construction of medical highlands in various regions***

The Group plans to increase efforts to expand the diagnostic testing services provided for medical institution alliances. The Group consolidates high-quality medical resources from its own industry chain and different regions, and actively seeks support from relevant departments of the local government. Our target is to build a joint laboratory together with leading hospitals backed by their technologies and based on the Group's laboratory. The Group aims at promoting the construction of regional medical hubs, strengthening the cooperation in high-quality medical resources and expanding the cooperation in scientific research and service. Through the construction of regional medical technology sharing centers, collaborative service centers of medical institution alliances, industrial innovation transformation centers and medical service networks, a distinctive model will be formed for the construction, operation and innovation of medical institution alliances and county-level medical alliances.

- ***Continuing to expand regional markets***

The Group also plans to establish more sales and customer service representative offices to enhance customer service. The Group believes that expanding the coverage of its office network will enable its sales, marketing and after-sales service personnel to have closer interaction with customers, fostering stronger and deeper business relationships. The Group intends to conduct more on-site visits, provide feedback to customers on a regular basis and maintain communication with them. Through closer and more frequent communications, the Group hopes to gain a deeper understanding of customers' needs and design and provide solutions to such needs, in order to maintain our market position.

- ***Continuously upgrading and enhancing our operational capabilities***

The Group believes that it is crucial for us, as a medical operation service platform, to continuously upgrade and enhance our operational capabilities, which is conducive to improving customer experience. We plan to concentrate on the following areas: (i) improving local service capabilities by strategically establishing small self-operated independent clinical laboratories in selected areas and regions adjacent to our main customers or based on market needs in China, in order to better provide timely services to our customers; (ii) providing digital diagnostic testing, by offering testing services in a digital manner and developing technologies and operating systems to support its operations; and (iii) seeking potential opportunities for acquisition and investment to further enhance operational capabilities, by acquiring or investing in companies with which synergies can be achieved, such as upstream companies engaged in advanced diagnostic technology, molecular biology, biotechnology and their clinical applications.

Through the above measures, the Group is of the view that its market share will continue to grow. The Group also plans to further penetrate areas where it currently lacks influence as a market leader, and gradually expand into other regions of China to strive for a larger market share in the future.

- ***Enlarging our diagnostic capability portfolio, collaborating to increase the market share of special testing products and customizing regional products***

The Group plans to expand its diagnostic capability portfolio, particularly in the fields of oncology, genetic diseases infectious diseases, and pharmacogenetics. Meanwhile, the Group proactively collaborates with upstream IVD partners to meet the actual clinical needs of customers. By combining the professional technology and academic resources of upstream partners with the Group's comprehensive medical examination services and systematic operation capabilities, highly competitive products and services can be developed to rapidly expand our share in certain market segments. The Group cooperates with industry chain partners in the fields of infectious diseases, solid tumors and other diseases. We constantly improve the products and service quality of high-end special testing and timely improve products based on clinical feedback to provide customers with accurate and rapid diagnostic testing services.

- ***Increasing the number of departments, testing items and penetration rate of cooperative hospitals at a faster pace through the Company's unique joint initiative model with hospitals***

The joint initiative model achieves growth in three aspects. The first aspect is to have business cooperation with hospitals. In the future, we will continue to dedicate to clinical services and carry out in-depth cooperation through multiple modes such as specialty alliance, scientific research, joint innovation of diagnostic testing and healthcare-academia-research-service integration. The second aspect is expansion of collaborative departments. At the beginning of a joint initiative, we usually start with laboratory and pathology departments. During the Reporting Period, the Group strengthened special key services and cooperation in obstetrics and gynecology, pediatrics, internal medicine, surgery, respiratory medicine, oncology, neurology, hematology and other departments. In the future, we will tap further into the needs of other departments and intensify cooperation in ICU, physical examination, thoracic surgery, endocrinology, cardiovascular and other departments. The third aspect involves the number of product lines and testing items. With more cooperative hospitals, cooperative departments, product lines and tests, we expect to maintain rapid growth in the future.

- ***Incessantly attracting and training our talents***

The Group plans to incessantly attract and train talented and experienced personnel to support our continuous business expansion. In particular, the Group will focus on technical and medical personnel, as well as management personnel, who we consider to be the backbone of our business. The Group intends to establish an employee promotion and development system with a hierarchical structure and corresponding salary plans. We may also formulate incentive schemes to motivate employees and align their interests with ours in the future. Moreover, the Group will implement training programs for different departments to enhance their professional and technical know-how, and increase investment in the Yunkang Medical and Health Management College to attract and cultivate more talents.

Looking forward to the future, the Group will continue to give full play to its own value, devote itself to improving public health standards and strive to offer more professional, efficient, accurate and convenient medical and health testing services to medical institutions and the general public.

FINANCIAL REVIEW

Overview

The financial summary set out below is extracted or calculated from the unaudited condensed consolidated financial statements of the Group for the Reporting Period which were prepared in accordance with the applicable disclosure provisions of the Listing Rules, including compliance with Hong Kong Accounting Standard 34 Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants.

Revenue

Revenue of the Group amounted to RMB476.9 million for the Reporting Period, representing a decrease of 65.4% compared to RMB1,378.7 million for the six months ended June 30, 2022. The decrease was primarily attributable to the impact of weaker market demand for diagnostic testing services, which resulted in a decrease in the revenue from the Group's diagnostic testing services compared to the same period last year.

The Group's revenue for the periods indicated is generated from three sectors as demonstrated below:

	For six months ended June 30,		Change
	2023	2022	
	<i>RMB'000</i>	<i>RMB'000</i>	
	(Unaudited)	(Unaudited)	
Diagnostic outsourcing services	254,438	680,362	(62.6)%
Diagnostic testing services for medical institution alliances	197,876	650,700	(69.6)%
Diagnostic testing services for non-medical institutions	24,551	47,594	(48.4)%
	476,865	1,378,656	(65.4)%

Diagnostic Outsourcing Services

Revenue generated from diagnostic outsourcing services decreased by 62.6% from RMB680.4 million for the six months ended June 30, 2022 to RMB254.4 million for the six months ended June 30, 2023, primarily due to the impact of the decrease in revenue from outsourced testing services compared to the same period last year as demand for diagnostic testing services declined nationwide.

Diagnostic Testing Services for Medical Institution Alliances

Revenue generated from diagnostic testing services for medical institution alliances decreased by 69.6% from RMB650.7 million for the six months ended June 30, 2022 to RMB197.9 million for the six months ended June 30, 2023, primarily due to the impact of generally weaker market demand for diagnostic testing services, which resulted in a decrease in the scale of testing service business of the Group's infectious disease centers compared to last year. During the Reporting Period, the Group actively promoted the expansion of testing items of the PCR testing platforms of infectious disease centers by carrying out multiple types of PCR molecular testings on viral hepatitis, respiratory infections, gastrointestinal infections, urinary and reproductive tract infections, and reproductive genetics.

Diagnostic Testing Services for Non-Medical Institutions

Diagnostic testing services for non-medical institutions are mainly provided through our outpatient clinics, serving individual customers who are general public and employees of our non-medical institution customers. During the Reporting Period, revenue generated from diagnostic testing services for non-medical institutions decreased by 48.4% from RMB47.6 million for the six months ended June 30, 2022 to RMB24.6 million for the six months ended June 30, 2023, primarily due to the impact of declined market demand for diagnostic testing services.

Cost of Revenue

The Group's cost of revenue consists of (i) cost of reagent and pharmaceuticals consumed; (ii) staff costs; (iii) depreciation expenses, which primarily include depreciation of property, plant and equipment and right-of-use assets; (iv) subcontracting charges, which primarily include outsourcing service fees paid; and (v) other costs, which are directly attributable to the generation of revenue.

The Group's cost of revenue decreased by 59.4% from RMB727.6 million for the six months ended June 30, 2022 to RMB295.2 million for the six months ended June 30, 2023, which was primarily attributable to the impact of weaker market demand for diagnostic testing services.

Gross Profit and Gross Profit Margin

As of result of the aforementioned factors, the Group's gross profit decreased by 72.1% from RMB651.1 million for the six months ended June 30, 2022 to RMB181.7 million for the six months ended June 30, 2023. The Group's overall gross profit margin decreased from 47.2% for the six months ended June 30, 2022 to 38.1% for the six months ended June 30, 2023, primarily due to the decrease in business scale resulting from the impact of declined market demand for diagnostic testing services.

Other Income

Other income increased by 19.4% to RMB6.1 million for six months ended June 30, 2023, as compared to RMB5.1 million for six months ended June 30, 2022. The increase was primarily due to the increase in government grants received. The government grants mainly include those grants from the local government in recognition of the R&D projects of the Group. There are no unfulfilled conditions or other contingencies attached to these grants.

Other gains/(losses), net

Other gains/(losses), net increased to RMB31.1 million for six months ended June 30, 2023, as compared to net loss of RMB0.2 million for six months ended June 30, 2022. The increase was primarily attributable to (i) an increase in foreign exchange gains, resulting from currency fluctuations during the Reporting Period; and (ii) an increase in gains on redemption of financial assets at FVTPL.

Selling Expenses

The Group's selling expenses decreased by 60.3% from RMB219.1 million for the six months ended June 30, 2022 to RMB86.9 million for the six months ended June 30, 2023, which are in line with the decrease in revenue of the Group.

Administrative Expenses

The Group's administrative expenses decreased by 37.4% from RMB128.6 million for the six months ended June 30, 2022 to RMB80.5 million for the six months ended June 30, 2023, primarily due to (i) the decrease in staff cost as a result of cost control; and (ii) no listing expenses being incurred during the Reporting Period.

The Group's R&D expenses increased by 3.9% from RMB25.4 million for six months ended June 30, 2022 to RMB26.4 million for six months ended June 30, 2023, mainly due to steady investment in on-going R&D projects.

Impairment Losses on Financial Assets

The Group's impairment losses on financial assets were mainly provisions for accounts receivable. For the six months ended June 30, 2023, the Group's impairment losses on financial assets were approximately RMB4.3 million, representing a decrease of 79.6% year-on-year, as the balance of trade receivables was less than that as at December 31, 2022.

Finance Costs, net

The Group's net finance costs increased from RMB3.8 million for the six months ended June 30, 2022 to RMB15.1 million for the six months ended June 30, 2023, primarily due to an increase in interest expense on interest-bearing borrowings.

Profit before Income Tax

As of result of the aforementioned factors, the Group recorded profit before income tax of RMB50.8 million for the six months ended June 30, 2023, compared to RMB283.5 million for the six months ended June 30, 2022. This was mainly attributable to the decrease in revenue and gross profit as a result of the decrease in business scale.

Income Tax Expense

The Group's income tax expenses decreased from RMB48.7 million for the six months ended June 30, 2022 to RMB2.8 million for the six months ended June 30, 2023, primarily due to the significant decrease in revenue, which resulted in a decrease in the Group's profits.

Property and Equipment

The Group's property and equipment consist of property and buildings, medical equipment, vehicles, furniture and office equipment, leasehold improvements, construction in progress and right-of-use assets.

The Group's property and equipment slightly decreased from RMB420.6 million as at December 31, 2022 to RMB410.9 million as at June 30, 2023, and had remained at a stable level.

Financial Assets Measured at Fair Value

The Group's financial assets measured at fair value comprise financial assets designated at FVOCI and financial assets designated at FVTPL.

As at June 30, 2023, the balance of financial assets at FVTPL was RMB453.7 million, representing a decrease of RMB349.1 million compared to December 31, 2022, which was attributable to the redemption of investments in several private funds during the Reporting Period.

As at June 30, 2023, the balance of financial assets at FVOCI was RMB84.3 million, which was same as that as at December 31, 2022. During the Reporting Period, the fair value changes on financial assets measured at FVOCI were considered as immaterial.

Inventories

The Group's inventories primarily consist of reagent and pharmaceuticals.

The Group's inventories decreased from RMB41.3 million as at December 31, 2022 to RMB19.1 million as at June 30, 2023, which is line with the decline in the Group's business scale.

Trade Receivables

The Group's trade receivables decreased from RMB2,432.2 million as at December 31, 2022 to RMB1,942.5 million as at June 30, 2023, primarily due to collection of trade receivables and decrease in revenue as a result of a decline in demand for diagnostic testing services since December 2022. The Group's credit period with customers is generally within 180 days. In line with industry practice, the settlement period of certain customers including public hospitals and the Chinese Center for Disease Control and Prevention (中國疾病預防控制中心), which requires long-period internal administrative procedures for bill payment, has been prolonged as a result of the COVID-19 pandemic. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department. Overdue balances are reviewed regularly by senior management to minimize credit risks.

Prepayments and Other Receivables

The Group's prepayments and other receivables increased from RMB134.4 million as at December 31, 2022 to RMB213.4 million as at June 30, 2023, primarily due to an increase of RMB170.0 million in prepayment for an investment, pursuant to which a subsidiary of the Company entered into an agreement with an independent third party to acquire equity interests of two private companies in the PRC at a consideration of approximately RMB170.0 million in total. There is industry synergy between the Company and the target companies that focus on medical industry.

Trade and Other Payables

The Group's trade and other payables decreased from RMB1,492.1 million as at December 31, 2022 to RMB1,249.6 million as at June 30, 2023, which is primarily in line with the decline in the Group's business scale, offset by an increase of RMB116.7 million in dividend payables.

Capital Management

The Group's objectives in respect of managing capital are to safeguard its ability to continue as a going concern in order to provide returns for Shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Liquidity and Capital Resources

The Group's cash and cash equivalents increased from RMB787.7 million as at December 31, 2022 to RMB1,268.6 million as at June 30, 2023, primarily attributable to the increase in net cash generated from operating activities and net cash generated from investing activities.

Net Current Assets

The Group had net current assets decreased from RMB2,189 million as at December 31, 2022 to RMB1,663 million as at June 30, 2023.

Key Financial Ratios

The following table set forth the Group's key financial ratios as at the dates or for the periods indicated.

	For the six months ended	
	June 30,	
	2023	2022
Gross profit margin ⁽¹⁾	38.1%	47.2%
	As at	As at
	June 30,	December 31,
	2023	2022
Current ratio ⁽²⁾	1.83	2.11
Quick ratio ⁽³⁾	1.82	2.08
Debt to asset ratio ⁽⁴⁾	0.50	0.48

Notes:

- (1) Gross profit margin is calculated based on gross profit divided by revenue and multiplied by 100%.
- (2) Current ratio is calculated based on total current assets divided by total current liabilities.
- (3) Quick ratio is calculated based on total current assets less inventories divided by total current liabilities.
- (4) Debt to asset ratio is calculated as total liabilities divided by total assets.

Contingent Liabilities

As at June 30, 2023, the Group did not have any material contingent liabilities, guarantee or any litigation or claim of material importance, pending or threatened against any of its member.

Foreign Exchange Risk

The Group mainly operates in China. Except for bank deposits, financial assets at FVTPL and borrowings that are denominated in Hong Kong dollars and US dollars, the Group does not have any other material direct exposure to foreign exchange fluctuations. The management will continue to monitor foreign exchange risk, take prudent measures and develop hedging strategy as appropriate to reduce foreign exchange risks.

Cash Flow and Fair Value Interest Rate Risk

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group currently has not used any interest rate swap arrangements but will consider hedging interest rate risk should the need arise.

Other than interest-bearing short-term deposits, the Group has no other significant interest-bearing assets. The Board does not anticipate that there is any significant impact to interest-bearing assets resulted from the changes in interest rates because the interest rates of short-term deposits are not expected to change significantly.

Credit Risk

The Group is exposed to credit risk in relation to its trade and other receivables, amounts due from related parties and cash deposits at banks. The carrying amount of each class of the above financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

Liquidity Risk

To manage the liquidity risk, the Group's policy is to regularly monitor its liquidity requirements and compliance with lending covenants, to ensure that it maintains sufficient reserve of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

Borrowings and Gearing Ratio

As at June 30, 2023, the Group had borrowings of RMB918.5 million (December 31, 2022: RMB691.8 million), of which RMB606.8 million were at fixed interest rates (December 31, 2022: RMB471.4 million). Equivalence of approximately RMB92.2 million borrowings as at June 30, 2023 were originally denominated in Hong Kong dollars.

As at June 30, 2023, the gearing ratio of the Group (calculated as total interest-bearing borrowings and lease liabilities divided by total equity plus other financial liabilities as at the same date) increased to 43.9%, compared to 31.0% as at December 31, 2022.

Pledge of Assets

As at June 30, 2023, borrowings of approximately RMB176.1 million (December 31, 2022: RMB100.4 million) were secured by the Group's equipment and pledged by the Group's deposits.

Significant Investments, Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures during the Reporting Period

The Group did not make any material investments, material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period.

Events after the Reporting Period

No important events affecting the Group have occurred since June 30, 2023 and up to the date of this announcement.

Future Plans for Material Investments and Capital Assets

The Group does not have any concrete committed plans for material investments and capital assets as at the date of this announcement.

Employees and Remuneration

As at June 30, 2023, the Group had 1,931 employees (as at June 30, 2022: 2,476). The total remuneration cost incurred by the Group for the six months ended June 30, 2023 was RMB153.6 million (for the six months ended June 30, 2022: RMB200.9 million). The remuneration package of the Group's employees includes salary and bonus, which are generally determined by their qualifications, industry experience, position and performance. The Group makes contributions to social insurance and housing provident funds as required by the PRC laws and regulations. Apart from offering a competitive remuneration and benefits package, the Group provides corporate and vocational training to its employees according to the training and development policy of the Group.

The Company has also adopted a restricted share unit scheme on November 23, 2022 to attract retain and incentivize the key personnel and partners of the Company, and to promote the value of the Company by offering these individuals an opportunity to acquire the shares of the Company and a proprietary interest in the success of the Company, thereby linking their interests with the Company's performance. For details, please refer to the Company's announcements dated November 23, 2022 and July 28, 2023.

OTHER INFORMATION

Compliance with the Code Provisions set out in Part 2 of the Corporate Governance Code in Appendix 14 to the Listing Rules (the "Corporate Governance Code")

The Company strives to achieve high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of the Shareholders and to enhance corporate value and accountability.

The Company has adopted the principles and code provisions of the Corporate Governance Code as the basis of the Company's corporate governance practices.

During the Reporting Period, the Company has complied with all applicable code provisions set out in Part 2 of the Corporate Governance Code except for the deviation from code provision C.2.1 of the Corporate Governance Code. Pursuant to code provision C.2.1 of the Corporate Governance Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. Mr. Zhang Yong currently serves as the chairman of the Board and the chief executive officer of the Company. He joined the Group on May 28, 2008 and has been operating and managing the Group since then. The Directors believe that it is beneficial to the business operations and management of the Group that Mr. Zhang Yong continues to serve as both the chairman of the Board and the chief executive officer of the Company.

The Company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the Corporate Governance Code, and maintain a high standard of corporate governance practices.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules (the “Model Code”)

The Company has adopted the Model Code as its securities code to regulate the dealing by the Directors in securities of the Company. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code during the Reporting Period. The Company’s relevant employees, who are likely to be in possession of inside information of the Company, have also been subject to the Model Code for securities transactions. No incident of non-compliance of the Model Code by the Company’s relevant employees was noted by the Company during the Reporting Period.

The Company has also established a policy on inside information to comply with its obligations under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and the Listing Rules. In case when the Company is aware of any restricted period for dealings in the Company’s securities, the Company will notify its Directors and relevant employees in advance.

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any subsidiaries or consolidated affiliated entities of the Group purchased, redeemed or sold any of the listed securities of the Company during the Reporting Period.

Interim Dividend

The Board did not declare any interim dividend for the six months ended June 30, 2023 (for the six months ended June 30, 2022: HK\$0.088 per share).

Audit Committee

The Audit Committee has reviewed the unaudited condensed consolidated financial statements for the six months ended June 30, 2023 of the Group. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control measures with senior management members. The Audit Committee does not have any disagreement with the accounting treatment adopted by the Company.

Publication of Interim Results Announcement and Interim Report

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.yunkanghealth.com).

The interim report for the six months ended June 30, 2023 containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the Shareholders, management team, employees, business partners and customers of the Company for their support and contribution to the Group.

By Order of the Board
Yunkang Group Limited
Zhang Yong
Chairman

Guangzhou, the PRC
August 30, 2023

As at the date of this announcement, the Board comprises Mr. Zhang Yong as chairman and executive Director; Ms. Huang Luo, Dr. Wang Pinghui and Dr. Wang Ruihua as non-executive Directors; and Mr. Yu Shiyou, Mr. Lan Fenghui and Mr. Xie Shaohua as independent non-executive Directors.