The following discussion and analysis should be read in conjunction with our consolidated financial statements included in "Appendix I – Accountant's Report," together with the accompanying notes. Our consolidated financial statements have been prepared in accordance with HKFRS.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis that we make 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, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed in "Risk Factors" and "Forward-Looking Statements" and elsewhere in this document.

OVERVIEW

Our solutions encompass the following:

- **Cloud hospital platform services.** We offer platform construction and platform connection services to local governments, medical institutions and insurers.

- **Internet medical services.** Supported by our cloud hospital platforms, third-party and our own medical institutions can provide online and offline integrated Internet medical services consisting of online hospital services, remote medical services, smart family doctor services and Internet home care services.

- **Health management services.** We provide integrated health management services to institutional and individual clients through our own medical institutions.

- **Smart healthcare products.** We offer smart healthcare products embedded with IoT technology to local governments and primary medical institutions as well as other medical and wellness products to corporations and individuals.

Our revenue increased steadily from RMB503.0 million in 2020 to RMB614.3 million in 2021 and further to RMB687.4 million in 2022. Meanwhile, our gross profit increased from RMB134.1 million in 2020 to RMB170.2 million in 2021 and decreased slightly to RMB168.5 million in 2022.

BASIS OF PRESENTATION

Our consolidated financial information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA. Our consolidated financial information has been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit of loss, which are carried at fair value.

The preparation of our consolidated financial information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying our accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to our consolidated financial information are disclosed in note 4 of the Accountant's Report in Appendix I.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

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

General Factors

Our business and results of operations are affected by general factors affecting the broader digital healthcare services market in China, which include:

- China's overall economic growth and level of per capita disposable income;
- developments in medical reforms, laws and regulations, as well as governmental policies and initiatives affecting the digital healthcare services market in China;
- development in, and general acceptance of, digital healthcare, 5G, IoT, AI and other information technologies; and
- development of the national multi-tiered medical payment systems, including social medical insurance, commercial medical insurance and medical assistance schemes.

Company-Specific Factors

While our business is influenced by factors affecting the digital healthcare services market in China generally, our results of operations are also affected by company-specific factors, which include:

Our Ability to Create Value for Participants in the Healthcare System

Our ability to attract new healthcare participants, including local governments, medical institutions and professionals, insurers, patients and other healthcare consumers, depends on a number of factors, including our ability to offer solutions and services at competitive prices in response to their needs, the evaluation by existing participants on the performance of our solutions, our ability to maintain comparative strengths in relation to our competitors and the effectiveness of our marketing and sales efforts. Meanwhile, we face challenges in growing revenue from existing participants. We need to capture recurring or new demands from existing participants, and maintain our relationship with them through identifying more pressing industry needs and our network effects.

In addition, our ability to create value for the various participants and generate revenue is driven by the breadth and depth of our service and product offerings, the accuracy of our targeted marketing, and our technology capabilities and infrastructure, and our continued ability to develop scalable services and products that adapt to the quickly evolving industry trends and user preferences.

Business Mix

Our results of operations are also affected by our business mix. During the Track Record Period, we operated different business lines under our four business segments: (i) cloud hospital platform services; (ii) Internet medical services; (iii) health management services; and (iv) smart healthcare products. Our profitability varies across different business segments, depending on the type of products and services we offered under different contractual arrangements. Any change in the structure of revenue contribution from our business lines or change in the profitability of any business segment may have a corresponding impact on our overall profitability. The following tables set forth the revenue contribution by segment and the respective gross margins for the years indicated:

	Year ended December 31,								
	2020			2021			2022		
	Revenue	Revenue contribution	Gross margin	Revenue	Revenue contribution	Gross margin	Revenue	Revenue contribution	Gross margin
	(RMB in thousands)	*(%)*	*(%)*	*(RMB in thousands)*	*(%)*	*(%)*	*(RMB in thousands)*	*(%)*	*(%)*
Cloud hospital platform services	78,611	15.6	38.1	127,967	20.8	46.4	122,369	17.8	46.2

	Year ended December 31,								
	2020			2021			2022		
	Revenue	Revenue contribution	Gross margin	Revenue	Revenue contribution	Gross margin	Revenue	Revenue contribution	Gross margin
	(RMB in thousands)	*(%)*	*(%)*	*(RMB in thousands)*	*(%)*	*(%)*	*(RMB in thousands)*	*(%)*	*(%)*
Internet medical services	55,057	11.0	7.4	93,407	15.2	7.9	137,834	20.1	12.2
Health management services	222,465	44.2	32.4	240,918	39.2	36.7	209,199	30.4	37.1
Smart healthcare products	146,875	29.2	19.0	152,010	24.8	9.9	218,013	31.7	8.0
Total	**503,008**	**100.0**	**26.7**	**614,302**	**100.0**	**27.7**	**687,415**	**100.0**	**24.5**

The gross margin represents our gross profit as a percentage of our revenue from contracts with customers. The level of our gross margins is largely affected by our business mix. For details on our gross margins during the Track Record Period, see "– Consolidated Statements of Comprehensive Income – Gross Profit and Gross Margin."

Our Investment in Technology, People and Infrastructure

We have made, and will continue to make, significant investments in our technology infrastructure and data capabilities to attract patients and other healthcare consumers, healthcare providers, local governments, medical insurers and other healthcare participants, enhance service quality and experience and expand the capabilities and scope of our cloud hospital platforms. We expect our investments will include expanding our Internet medical service offerings, increasing sales and marketing efforts as well as executing our expansion strategy. Our operating leverage and margin levels enable us to continue to invest in our people, particularly medical professionals, engineers and product management personnel, as well as in our underlying infrastructure and technology capabilities in mobile Internet, IoT, cloud computing, big data and AI.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

We have identified certain accounting policies and estimates, which we consider significant in the preparation of our financial statements in accordance with HKFRS. These significant accounting policies are set forth in note 2 to the Accountant's Report in Appendix I to this document, which are important for an understanding of our financial condition and results of operations.

Some of our accounting policies involve subjective assumptions, estimates and judgments that are discussed in note 4 of the Accountant's Report in Appendix I to this document. The preparation of our financial statements requires our management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Our management has identified below the accounting policies, estimates and judgments that they believe are critical to the preparation of our financial statements.

Revenue Recognition

Revenue is recognized when, or as, the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the applicable laws, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if our performance:

- provides all the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as we perform; or
- does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date.

If control of the goods and services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains the control of goods and services.

The progress towards complete satisfaction of performance obligation, depending on the nature of the good and service to be transferred, is measured based on one of the following methods that best depicts our Group's performance in satisfying the performance obligation:

- direct measurements of the value of individual services transferred by us to the customer; or
- our efforts or inputs to the satisfaction of the performance obligation.

If the contracts involve the sale of multiple goods, goods followed by relevant services, or multiple services, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin, depending on the availability of observable information.

When either party to a contract has performed, we present the contract in the balance sheets as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

If a customer pays consideration or we have a right to an amount of consideration that is unconditional, before we transfer a good or service to the customer, we present the contract as a contract liability when the payment is made or the receivable is recorded (whichever is earlier). A contract liability is our obligation to transfer goods or services to a customer for which we have received consideration (or an amount of consideration is due) from the customer.

Receivable is recorded when we have an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Contract costs are the incremental costs of obtaining a contract with a customer. Incremental costs of obtaining a contract are the costs we would not have incurred if the contract had not been obtained. We capitalize as an asset incremental costs of obtaining a contract with a customer if we expect to recover them, other costs of obtaining a contract are expensed when incurred. Amortization of capitalized contract costs is charged to profit or loss when revenue to which the asset relates is recognized.

Revenue is measured at the transaction price agreed under the contract. Amount disclosed as revenue are net of return, trade allowances and amounts collected on behalf of third parties.

The following is a description of the accounting policy for our principal revenue streams.

Cloud Hospital Platform Services

Cloud hospital platform services consist primarily of project-based platform services for customers including local governments, medical institutions, insurers and enterprises. The project-based platform services are provided through integrating the hardware, software and other services, all of which are highly interdependent and interrelated with each other and represent multiple inputs to a combined output, and the combined output under such circumstances is accounted for as a performance obligation in a contract with the customer. Since none of the following criteria under HKFRS 15 paragraph 35 was satisfied, revenue from project-based platform services is recognized at a point in time when the combined output is inspected and accepted by the customer:

- the customer does not simultaneously receive and consume benefits because another entity would need to substantially re-perform our performance completed to date;
- our performance does not under the customer's control as it is created; and
- although our performance creates an asset without alternative use, we do not have an enforceable right to payment for performance completed to date in accordance with the contracts signed.

In addition, we also provide operation and maintenance services to customers, and revenue is recognized over time on a straight line basis since the customer simultaneously receives and consumes the benefits provided by us.

We recognize an asset in relation to costs to fulfil the cloud hospital platform services contract. The asset is recognized into cost of sales with the relevant revenue of service and recognized at the point of completion.

We record the non-refundable prepayment from customers as contract liabilities.

Internet Medical Services

We provide Internet medical services mainly consisting of online hospital services and remote medical services during the Track Recording Period through our cloud-based information infrastructures to the customer including medical institutions, individual customers and enterprises. Revenue from the Internet medical services is recognized at the point when the services have been fulfilled.

Health Management Services

We provide health management services primarily consisting of the comprehensive health management services (mainly covering health check-ups) either to individual customers or enterprises customers. Health management services revenue is recognized at the point when the relevant service has been fulfilled. We record the prepayment from customers as contract liabilities, while records the outstanding considerations as trade receivables.

Smart Healthcare Products

We provide a variety of smart healthcare products during the Track Record Period to medical institutions, enterprises and individual customers. We are primarily responsible for providing smart healthcare products to the customers being a principal, and revenue is recognized at a point when the smart healthcare products are installed and accepted by the customer. We record the prepayment from customers as contract liabilities, while records the outstanding considerations as trade receivables or contract assets. For certain contracts of which we transfer control of smart healthcare products to the customers in advance of receiving consideration, we record contract assets when the outstanding consideration is subject to certain conditions other than the passage of time. Contract assets become trade receivables when our right to considerations is unconditional if only the passage of time is required before payment of the consideration is due. For some of the smart healthcare products sales, we perform as an agent and has no control to the products before it is transferred to the customers, and the relevant revenue is presented in the net amount.

Impairment Assessment of Trade Receivables, Contract Assets and Long-Term Trade Receivables

The Group applies the HKFRS 9 simplified approach to measuring Expected Credit Loss ("ECL") for the trade receivables, contract assets and long-term trade receivables.

We have used provision matrix to calculate ECL for the trade receivables and contract assets. The provision rates used are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on our historical default rates, taking into consideration forward-looking information that is reasonable and supportable, available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables and contract assets with significant balances and credit impaired are assessed for ECL individually.

The ECL for the long-term trade receivables which are used a lifetime expected loss allowance are based on historical experience of the Group and comparable companies for the long-term trade receivables.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and our trade receivables, contract assets and long-term trade receivables is disclosed in note 22, note 5 and note 19 of the Accountant's Report in Appendix I.

Recognition of Share-Based Compensation Expenses

We operate equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for our equity instruments. The fair value of the employee services received in exchange for the grant of equity instruments is recognized as an expense on the consolidated financial statements. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted:

- including any market performance conditions (for example, the entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or hold shares for a specific period of time).

The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the service conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity. For details, see note 2.23 of the Accountant's Report in Appendix I.

Our Directors have used the Black-Scholes model to determine the total fair value of the share options and used back-solve method to determine the total fair value of the restricted shares granted to employees, which are to be expensed over the vesting period. Significant estimate on assumptions, such as the risk-free interest rate, expected volatility, estimation of vesting period and dividend yield, is required to be made by our Directors in applying the methods.

Current and Deferred Income Taxes

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current Income Tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where our Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred Income Tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Financial Liability for Redeemable Rights

Redeemable rights issued by our Company to certain investors contain an obligation to purchase its own shares upon occurrence of certain future events, such redeemable rights will be automatically cancelled upon the [**REDACTED**].

The potential cash payments related to the redeemable rights are accounted for as financial liabilities. The liabilities are initially recognized at the present value of the redemption amount with a corresponding charge directly to equity. The financial liabilities shall be subsequently measured at amortized cost.

If the redeemable rights expire without delivery, the carrying amount of the financial liability is reclassified to equity.

The Financial liabilities are classified as non-current liabilities if our Company doesn't need to redeem for at least 12 months after the end of the Track Record Period.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The following table summarizes our results of operations for the years indicated:

	Year ended December 31,		
	2020	**2021**	**2022**
	(RMB in thousands)		
Revenue from contracts with customers	503,008	614,302	687,415
Cost of sales and services	(368,900)	(444,073)	(518,965)
Gross profit	**134,108**	**170,229**	**168,450**

	Year ended December 31,		
	2020	2021	2022
	(RMB in thousands)		
Selling and marketing expenses	(96,728)	(135,777)	(126,066)
Research and development expenses	(66,761)	(86,421)	(78,959)
Administrative expenses	(113,474)	(213,275)	(139,396)
Net impairment (losses)/reversal on financial assets	(23,685)	(23,629)	(36,652)
Other income	34,265	14,365	18,926
Other (losses)/gains – net	(23,682)	20,912	(1,780)
Operating loss	**(155,957)**	**(253,596)**	**(195,477)**
Finance income	1,051	1,209	4,811
Finance costs	(44,206)	(36,312)	(42,880)
Finance costs – net	(43,155)	(35,103)	(38,069)
Share of losses from investments accounted for using the equity method	(3,909)	(4,148)	(4,762)
Loss before income tax	**(203,021)**	**(292,847)**	**(238,308)**
Income tax (expense)/credit	4,477	(1,560)	(5,056)
Loss for the year	**(198,544)**	**(294,407)**	**(243,364)**
Loss attributable to:			
Owners of the Company	(196,203)	(296,301)	(241,962)
Non-controlling interests	(2,341)	1,894	(1,402)

Non-HKFRS Measures

To supplement our consolidated statements of profit or loss which are presented in accordance with HKFRS, we use adjusted net loss for the year (non-HKFRS measure) and adjusted net loss margin (non-HKFRS measure) as non-HKFRS measures, which are not required by, or presented in accordance with, HKFRS. We believe that the presentation of such non-HKFRS measures when shown in conjunction with the corresponding HKFRS measures provides useful information to potential investors and management in facilitating a comparison of our operating performance from period to period by eliminating potential impacts of certain items, such as share-based compensation expenses and interest expenses for financial liability for redeemable rights. The use of non-HKFRS measures has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for or superior to, the analysis of, our results of operations or financial condition as reported under the HKFRS. In addition, non-HKFRS measures may be defined differently from similar terms used by other companies.

The following table reconciles our adjusted net loss for the year (non-HKFRS measure) with the most directly comparable financial measure in accordance with HKFRS, for the years indicated:

	Year ended December 31,		
	2020	2021	2022
	(RMB in thousands)		
Loss for the year	**(198,544)**	**(294,407)**	**(243,364)**
Add: Share-based compensation expenses	34,044	153,560	79,176
Add: Interest expenses for financial liability for redeemable rights	15,834	15,562	17,162
Adjusted net loss for the year (non-HKFRS measure)	**(148,666)**	**(125,285)**	**(147,026)**

The non-HKFRS measure, adjusted net loss for the year, used by us has been adjusted for (i) share-based compensation expenses and (ii) interest expenses for financial liability for redeemable rights. In particular, the share-based compensation expenses are a non-cash expense arising from granting share-based awards to selected employees. Meanwhile, the redeemable rights arose from an investment agreement entered into by the Company and a certain investor in round C investments, pursuant to which the Company has an obligation to repurchase its ordinary shares issued to this investor in round C investments. The redeemable rights are recognized as a financial liability and will be automatically cancelled upon the [**REDACTED**]. We are not expected to have any additional interest expenses for financial liability for redeemable rights.

The following table sets forth our adjusted net loss margin (non-HKFRS measure) for the years indicated:

	Year ended December 31,		
	2020	2021	2022
	(%)		
Adjusted net loss margin (non-HKFRS measure)[(1)]	(29.6)	(20.4)	(21.4)

(1) Adjusted net margin equals adjusted net loss for the year (non-HKFRS measure) divided by revenue for the year and multiplied by 100%. The use of the non-HKFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for or superior to, the analysis of our results of operations or financial condition as reported under the HKFRS.

Our adjusted net loss (non-HKFRS measure) decreased from RMB148.7 million in 2020 to RMB125.3 million in 2021, and increased to RMB147.0 million in 2022. The increase in our adjusted net loss (non-HKFRS measure) in 2022 was mainly due to a slight decrease in our gross profit and an increase in our net foreign exchange losses, despite decreases in our total operating expenses excluding share-based compensation expenses in 2022 compared to 2021. Our adjusted net loss margin (non-HKFRS measure) decreased from 29.6% in 2020 to 20.4% in 2021, primarily due to a decrease in the adjusted net loss (non-HKFRS measure) and an increase in the revenue. Our adjusted net loss margin (non-HKFRS measure) increased slightly from 20.4% in 2021 to 21.4% in 2022, mainly due to an increase in the adjusted net loss (non-HKFRS measure), as a result of the reasons stated above.

Revenue from Contracts with Customers

During the Track Record Period, we generated revenue from four business segments, namely: (i) cloud hospital platform services; (ii) Internet medical services; (iii) health management services; and (iv) smart healthcare products.

The following table sets forth a breakdown of our revenue from contracts with customers by business segment for the years indicated:

	Year ended December 31,					
	2020		2021		2022	
	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except for percentages)					
Cloud hospital platform services	78,611	15.6	127,967	20.8	122,369	17.8
Internet medical services	55,057	11.0	93,407	15.2	137,834	20.1
Health management services	222,465	44.2	240,918	39.2	209,199	30.4
Smart healthcare products	146,875	29.2	152,010	24.8	218,013	31.7
Total	**503,008**	**100.0**	**614,302**	**100.0**	**687,415**	**100.0**

Our revenue from contracts with customers from each of our business segments generally increased during the Track Record Period, except that: (i) revenue from cloud hospital platform services decreased slightly from RMB128.0 million in 2021 to RMB122.4 million in 2022, mainly because certain milestones were not achieved on time due to adverse impacts by the COVID-19 pandemic in 2022, which delayed the revenue recognition. During the COVID-19 pandemic, we also experienced heightened competition as certain market participants adopted aggressive pricing strategies when faced with difficult market conditions; and (ii) revenue from health management services decreased by 13.2% from RMB240.9 million in 2021 to RMB209.2 million, mainly because we suspended the operations of eight medical institutions for different durations in the first three quarters of 2022 due to the COVID-19 outbreaks in

Shanghai, Shenyang, Chongqing, Xi'an, Hefei, Dandong, Fuzhou and Chendu in such period. During such period, customer demand for routine health management services such as health check-ups reduced, resulting in more intensive competition for customer base among health management service providers.

We experienced a gradual change in business mix during the Track Record Period. In 2020, 2021 and 2022, health management services and smart healthcare products accounted for 73.4%, 64.0% and 62.1% of our total revenue, respectively. Meanwhile, cloud hospital platform services and Internet medical services together accounted for 26.6%, 36.0% and 37.9% of our total revenue, respectively, showing an increasing revenue contribution during the Track Record Period.

Cloud Hospital Platform Services

We provide platform construction and platform connection services to local governments, medical institutions and insurers. In 2020, 2021 and 2022, our revenue generated from our cloud hospital platform services represented 15.6%, 20.8% and 17.8% of our total revenue, respectively.

Internet Medical Services

We provide Internet medical services to facilitate medical institutions on our platform to better serve patients with convenient and integrated online-to-offline healthcare services. The Internet medical services are either provided by medical professionals at or registered with (i) medical institutions owned by us, or the "proprietary model," or (ii) third-party medical institutions, or the "platform model". We typically receive service fee income from patients on a gross basis for services rendered by the former, while earning a platform management fee as a percentage of consultation and other service fees received by third-party medical institutions from patients through our platforms. In 2020, 2021 and 2022, our revenue generated from our Internet medical services represented 11.0%, 15.2% and 20.1% of our total revenue, respectively.

Health Management Services

We offer integrated health management services through our own medical institutions directly to individual and institutional clients. Our institutional clients are primarily government agencies, corporations, banks and insurers, who purchase our services for the benefit of their employees. We typically earn service fee revenue for such services.

In 2020, 2021 and 2022, our revenue generated from our health management services represented 44.2%, 39.2% and 30.4% of our total revenue, respectively.

Smart Healthcare Products

We offer smart healthcare products embedded with IoT technology to medical institutions, businesses and individuals. We also offer third-party medical equipment, devices and other products to medical institutions and individuals. We typically generate revenue from sales of these products. In 2020, 2021 and 2022, our revenue generated from our smart healthcare products represented 29.2%, 24.8% and 31.7% of our total revenue, respectively.

Cost of Sales and Services

The following table sets forth a breakdown of our cost of sales and services by nature for the years indicated:

	Year ended December 31,					
	2020		2021		2022	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue
	(RMB in thousands, except for percentages)					
Cost of sales of hardware, software and others & raw materials used	275,737	54.8	350,891	57.1	449,035	65.3
Employee benefits expenses	47,133	9.4	61,980	10.1	43,557	6.3
Depreciation of property, plant and equipment	18,309	3.6	8,745	1.4	6,430	0.9
Depreciation of right-of-use assets	7,609	1.5	6,133	1.0	5,026	0.7
Travelling, entertainment and general office expenses	4,197	0.8	3,353	0.5	2,923	0.4
Short-term leases expenses	7,066	1.4	4,452	0.7	7,694	1.1
Other expenses	8,849	1.8	8,519	1.4	4,300	0.6
Total	**368,900**	**73.3**	**444,073**	**72.2**	**518,965**	**75.3**

Our cost of sales primarily consists of cost of sales of hardware, software and others as well as raw materials used and employee benefits expenses.

Cost of sales of hardware, software and others as well as raw materials used mainly refer to direct costs incurred for operating hardware, software and other equipment as well as costs for purchasing raw materials. The cost of sales of hardware, software and others as well as raw materials used contributed to a substantial portion of our cost of sales and services, representing 74.7%, 79.0% and 86.5% of our total cost of sales and services, respectively, in 2020, 2021 and 2022.

Employee benefits expenses mainly relate to our medical professionals in our health management services.

The following table sets forth a breakdown of our cost of sales by business segment for the years indicated:

	Year ended December 31,					
	2020		2021		2022	
	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except for percentages)					
Cloud hospital platform services	48,645	13.2	68,536	15.4	65,830	12.7
Internet medical services	50,982	13.8	86,038	19.4	121,021	23.3
Health management services	150,295	40.8	152,518	34.3	131,606	25.4
Smart healthcare products	118,978	32.2	136,981	30.9	200,508	38.6
Total	**368,900**	**100.0**	**444,073**	**100.0**	**518,965**	**100.0**

Gross Profit and Gross Margin

The following table sets forth our gross profit in absolute amounts and as a percentage of revenue, or gross margins, for the years indicated:

	Year ended December 31,					
	2020		2021		2022	
	Gross profit	Gross margin (%)	Gross profit	Gross margin (%)	Gross profit	Gross margin (%)
	(RMB in thousands, except for percentages)					
Cloud hospital platform services	29,966	38.1	59,431	46.4	56,539	46.2
Internet medical services	4,075	7.4	7,369	7.9	16,813	12.2
Health management services	72,170	32.4	88,400	36.7	77,593	37.1
Smart healthcare products	27,897	19.0	15,029	9.9	17,505	8.0
Total	**134,108**	**26.7**	**170,229**	**27.7**	**168,450**	**24.5**

Our gross profit represents our revenue from contracts with customers less our cost of sales and services. Our gross margin represents our gross profit as a percentage of our revenue from contracts with customers. The level of our overall gross margin is largely affected by our business mix.

Our cloud hospital platform services segment had relatively high gross margins during the Track Record Period, mainly because the costs of this segment, comprising the costs for development and connection of cloud hospital platforms, are shared among different platforms given the replicability and scalability of our cloud hospital platform technology infrastructure. We generally adopt a cost-plus pricing strategy for the cloud hospital platform services. For details, see "Business – Our Solutions – Cloud Hospital Platform Services."

Our Internet medical services segment had relatively lower gross margins during the Track Record Period, mainly because we adopted competitive pricing strategies such as free online consultation to compete in the market. As we gradually reduced the portion of free services and offered fewer discounts during the Track Record Period, this has contributed to general increases in the gross profit margin of the Internet medical services segment. Meanwhile, the split between revenue received under the proprietary model and revenue received under the platform model also affects our gross profit margin for this segment. We recognize revenue received under the proprietary model on a gross basis, which generally has lower margins than revenue received under the platform model as it is recognized on a net basis.

Our health management services segment has generally relatively higher gross margins during the Track Record Period, mainly because we incurred certain costs such as employee benefits expenses of medical professionals, depreciation of medical equipment and lease expenses, which are largely considered as fixed costs. Such fixed costs remained relatively stable regardless of the changes in the scale of our health management services business.

Our smart healthcare products segment had relatively low gross margins during the Track Record Period, mainly due to our competitive pricing strategies to increase our market presence with primary medical institutions, which, we believe, will allow us to generate additional synergy from the cloud hospital platform services and Internet medical services and health management services in the long term.

Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of employee benefits expenses, travelling and entertainment and general office expenses. The following table sets forth a breakdown of our selling and marketing expenses for the years indicated:

	Year ended December 31,					
	2020		**2021**		**2022**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
	(RMB in thousands, except for percentages)					
Employee benefits expenses	69,233	71.5	79,200	58.3	78,504	62.3
Raw materials used	385	0.4	300	0.2	141	0.1
Share-based compensation expenses	3,198	3.3	28,244	20.8	18,095	14.4
Travelling, entertainment and general office expenses	10,481	10.8	14,377	10.6	10,065	8.0
Depreciation of property, plant and equipment	3,536	3.7	3,624	2.7	3,098	2.5
Depreciation of right of use assets	2,491	2.6	2,782	2.1	2,943	2.3
Short-term leases expenses	2,603	2.7	1,692	1.2	1,388	1.1
Other expenses	4,801	5.0	5,558	4.1	11,832	9.3
Total	**96,728**	**100.0**	**135,777**	**100.0**	**126,066**	**100.0**

Our employee benefits expenses mainly related to our personnel involved in business development and sales and marketing, representing 71.5%, 58.3% and 62.3% of our total selling and marketing expenses, respectively, in 2020, 2021 and 2022. Our share-based compensation expenses mainly included the Pre-[**REDACTED**] SOS Options granted to our selling and marketing employees. Our travelling, entertainment and general office expenses mainly included fees incurred for business trips and hospitality relating to our business development activities.

Research and Development Expenses

Our research and development expenses primarily consist of employee benefits expenses and travelling, entertainment, service fee and general office expenses. The following table sets forth a breakdown of our research and development expenses for the years indicated:

	Year ended December 31,					
	2020		2021		2022	
	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except for percentages)					
Employee benefits expenses	51,905	77.7	55,595	64.3	50,545	64.0
Raw materials used	334	0.5	809	0.9	407	0.5
Share-based compensation expenses	2,889	4.3	17,451	20.2	8,445	10.7
Travelling, entertainment, service fee and general office expenses	6,736	10.1	9,238	10.7	16,063	20.3
Depreciation of property, plant and equipment	1,212	1.8	1,002	1.2	551	0.7
Depreciation of right-of-use assets	–	–	734	0.8	1,821	2.3
Short-term leases expenses	1,857	2.8	1,103	1.3	464	0.6
Other expenses	1,828	2.8	489	0.6	663	0.9
Total	**66,761**	**100.0**	**86,421**	**100.0**	**78,959**	**100.0**

Our employee benefits expenses mainly relate to our personnel involved in research and development, product operation and technical support, representing 77.7%, 64.3% and 64.0% of our total research and development expenses, respectively, in 2020, 2021 and 2022. Our share-based compensation expenses mainly include the Pre-[**REDACTED**] SOS Options granted to our research and development employees. Our travelling, entertainment, service fee and general office expenses mainly include fees incurred for business trips by our employees for the purposes of research and development, and service fees incurred for outsourced research and development.

Administrative Expenses

Our administrative expenses primarily consist of employee benefits expenses, share-based compensation expenses and depreciation of right-of-use assets. The following table sets forth a breakdown of our administrative expenses for the years indicated:

	Year ended December 31,					
	2020		2021		2022	
	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except for percentages)					
Employee benefits expenses	42,074	37.1	47,701	22.4	50,900	36.5
Raw materials used	596	0.5	934	0.4	506	0.4
Share-based compensation expenses	27,957	24.6	107,866	50.6	52,636	37.8
Travelling, entertainment and general office expenses	6,422	5.7	6,072	2.8	4,200	3.0
Depreciation of property, plant and equipment	7,831	6.9	4,147	1.9	2,059	1.5
Depreciation of right-of-use assets	15,299	13.5	13,821	6.5	11,306	8.1
Short-term leases expenses	5,840	5.1	5,448	2.6	3,592	2.6
[**REDACTED**] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other expenses	7,455	6.6	9,656	4.5	4,637	3.2
Total	**113,474**	**100.0**	**213,275**	**100.0**	**139,396**	**100.0**

Our employee benefits expenses mainly relate to our personnel involved in administrative and support departments, representing 37.1%, 22.4% and 36.5% of our total administrative expenses, respectively, in 2020, 2021 and 2022. Our share-based compensation expenses mainly include the Pre-[**REDACTED**] SOS Options granted to our administrative employees. Our depreciation of right-of-use assets mainly represents the depreciation of our lease contracts recognized as right-of-use assets under HKFRS 16 relating to general and administrative purposes.

Net Impairment Losses/Reversal on Financial Assets

Our net impairment losses on financial assets mainly refer to provisions for impairment losses or reversal for contract assets, trade receivables, other receivables and long-term trade receivables based on expected credit loss.

Our net impairment losses remained relatively stable in 2020 and 2021, which was primarily a result of increased allowance for impairment of trade receivables in line with the growth of our business, offset by a reversal of the impairment of other receivables.

The increase of net impairment losses in 2022, compared to 2021, was primarily a result of increased allowance for impairment of trade receivables mainly due to the temporary payment delay from government customers of our cloud hospital platform services and smart healthcare products as they prioritized combating COVID-19 in their resource allocation. See "– Description of Certain Components of Our Consolidated Statements of Financial Position – Trade Receivables."

Other Income

Our other income primarily consists of government grants. The following table sets forth a breakdown of our other income for the years indicated:

	Year ended December 31,		
	2020	**2021**	**2022**
	(RMB in thousands)		
Government grants	32,251	13,737	17,811
Value added tax ("VAT") refund and VAT reduction	840	–	775
Investment income on wealth management products	829	306	–
Refund of service fee for withholding IIT	123	73	106
Additional deduction of input VAT	102	207	233
Other items	120	42	1
Total	**34,265**	**14,365**	**18,926**

Our government grants include funds granted to support the establishment of cloud hospitals and elderly care, among other things, and awards for technological innovation enterprises. The fluctuation in our government grants during the Track Record Period was mainly related to the completion of projects for which we were entitled to government grants. In 2020, 2021 and 2022, we had 11, 6 and 5 completed projects, respectively, for which we recognized government grants in an amount that exceeded RMB100,000 each. The aggregate amount of government grants received in connection with such projects accounted for more than 95% of the total government grants we recognized under other income in each of 2020, 2021 and 2022. However, such government grants are not recurring in nature. See "Risk Factors – Risks Relating to Our Business and Industry – The government grants that we enjoy in the may be altered or terminated" for details on related risks.

We also received investment income arising from wealth management products during the Track Record Period. We purchase wealth management products with our cash on hand. These products were issued by a large reputable commercial bank in China. The underlying financial assets of the wealth management products in which we invested during the Track Record Period are primarily low-risk fixed-income instrument, and the balance of such wealth management products as of December 31, 2020 was not principal-guaranteed, and such products have no fixed maturity and can be redeemed at our preference. We have adopted investment and treasury policies and internal control measures to review and monitor our investment risks. Our investment decisions are made after due and careful consideration of a number of factors, including market and investment conditions, economic developments, investment cost, duration of investment and the risks expected to be involved and the expected returns.

Our wealth management investments were measured at fair value through profit or loss during the Track Record Period. The fair value of our wealth management investments are based on management judgment and are within Level 3 of the fair value hierarchy, and we recognize changes in such fair values through profit or loss.

Details of the fair value measurement of financial assets, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, are disclosed in note 3.3 of the Accountant's Report in Appendix I to this document, which was issued by the Reporting Accountant in accordance with the Hong Kong Standard on Investment Circular Reporting Engagement 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountant's opinion on the Historical Financial Information of our Group for the Track Record Period as a whole is set out on page I-2 of Appendix I to this document.

In relation to the valuation of the Level 3 financial assets, our management has carefully reviewed the valuation-related policies, the financial statements prepared in accordance with HKFRS and other supporting documents, and has had sufficient understanding of the valuation model, methodologies and techniques. In particular, our finance department: (i) manages the valuation of Level 3 instruments for financial reporting purposes, and manages the valuation exercise of the investments on a case-by-case basis; (ii) uses valuation techniques to determine the fair value of our Level 3 instruments at least once a year; and (iii) will engage external valuers when necessary. In addition, the balance of Level 3 wealth management products as of December 31, 2022 was nil. In light of the above, our Directors are satisfied with the valuation for our financial assets categorized within Level 3 of fair value measurement in the historical financial information for the purpose of the preparation of the Accountant's Report as set out in Appendix I to this document.

The Sole Sponsor has performed due diligence work in respect of the valuation analysis on Level 3 financial assets, including, but not limited to: (i) discussed with our Company to understand the nature and details of the financial assets, the internal policies and procedures for the management of the Level 3 financial assets and the key basis, methodology and assumptions for the valuation of the Level 3 financial assets; (ii) reviewed the relevant notes in the Accountant's Report as contained in Appendix I to this document; (iii) discussed with the Reporting Accountant to understand the work it has performed in relation to the valuation of the Level 3 financial assets for the purpose of reporting on the Historical Financial Information of the Group as a whole; and (iv) obtained and reviewed the relevant underlying agreements concerning the corresponding Level 3 financial assets during the Track Record Period. Having considered the work performed by our management and the unqualified opinion on our financial information as a whole issued by the Reporting Accountant in Appendix I to this document, and the relevant due diligence work conducted as stated above, nothing has come to the attention of the Sole Sponsor that would cause it to disagree with the valuation of the Level 3 financial assets.

Other Losses/Gains, Net

Our net other losses or gains primarily consist of (i) gains or losses recognized from the disposal of our subsidiaries in 2020, 2021 and 2022, (ii) gains or losses recognized from disposal of fixed assets such as medical equipment, electronic equipment and office equipment, and (iii) net foreign exchange losses, mainly relating to the fluctuations of foreign exchange rates affecting our U.S. dollar-denominated assets and liabilities. The following table sets forth a breakdown of our net other losses for the years indicated:

	Year ended December 31,		
	2020	**2021**	**2022**
	(RMB in thousands)		
Net (loss)/gain on disposal of subsidiaries or associates	(4,972)	17,194	8,532
Net (loss)/gain on disposal of long-term assets	(542)	2,864	2,549
Net foreign exchange (losses)/gains	(19,623)	1,709	(13,023)
Others	1,455	(855)	162
Total	**(23,682)**	**20,912**	**(1,780)**

Finance Income and Costs

Finance income mainly represents interest income from our bank deposits with financial institutions, and finance costs primarily consist of interest expenses of bank borrowings, interests charged to profit or loss over the lease period under certain lease arrangements pursuant to HKFRS 16 and interest expenses relating to our employee incentive plans and financial liability for redeemable rights. The following table sets forth a breakdown of our finance income and costs for the years indicated:

	Year ended December 31,		
	2020	**2021**	**2022**
	(RMB in thousands)		
Finance income			
Interest income	1,051	1,209	4,811
Finance costs			
Interest costs on bank borrowings	(17,431)	(16,393)	(23,417)
Interest costs on lease liabilities	(8,723)	(4,357)	(2,301)
Interest expenses for payables to eligible employees[1]	(2,218)	–	–
Interest expenses for financial liability for redeemable rights[2]	(15,834)	(15,562)	(17,162)
Subtotal	**(44,206)**	**(36,312)**	**(42,880)**
Finance costs, net	**(43,155)**	**(35,103)**	**(38,069)**

(1) Pursuant to our restricted share scheme, we agreed to repurchase the restricted shares we granted to our employees at twice the cash we received from them if such employees resign after three years since the grant date but prior to the [**REDACTED**]. The difference between the grant date present value of the repurchase price and the subscription price paid by grantees is treated as cash-settled share-based payment, and is recognized over the three-year service period after the grant date. The finance cost in connection with the present value of the repurchase price was recorded as interest expenses payable to eligible employees accordingly. See note 31 to the Accountant's Report in Appendix I to this document.

(2) The redeemable rights will be automatically cancelled upon the [**REDACTED**], and we are not expected to incur additional interest expenses for financial liability for redeemable rights thereafter. For details, see note 30 of the Accountant's Report in Appendix I to this document.

Share of Losses from Investments Accounted for Using the Equity Method

Our shares of profit or loss from investment in associates and joint ventures mainly represent the aggregate share of our associates' and joint ventures' net profits or losses attributable to our interests in those associates and joint ventures. In 2020, 2021 and 2022, our share of losses from investments accounted for using the equity method were RMB3.9 million, RMB4.1 million and RMB4.8 million, respectively. For details, see note 12 of the Accountant's Report in Appendix I to this document.

Income Tax

In 2021 and 2022, our income tax expenses was RMB1.6 million, and RMB5.1 million, respectively. In 2020, we had income tax credits of RMB4.5 million.

We are subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which our members are domiciled and operate. We are subject to various rates of income tax under different jurisdictions. The following sets forth our principal applicable taxes and tax rates:

Cayman Islands

Our Company is incorporated as an exempted company with limited liability under the Companies Act of Cayman Islands and is not subject to Cayman Islands income tax.

Mainland China

Our income tax provision in respect of our operations in the PRC was subject to a statutory tax rate of 25% on the assessable profits for the Track Record Period, based on the existing legislation, interpretations and practices in respect thereof.

Enterprises that qualify as "High and New Technology Enterprises" are entitled to a preferential rate of 15% for three years. On December 2, 2019, Neusoft Xikang Healthcare Technology Co., Ltd. was qualified as a High and New Technology Enterprise under the relevant PRC laws and regulations, and such qualification may be renewed every three years. This qualification expired on December 1, 2022, and we are currently in the renewal process and do not expect any material legal impediment to renewing such qualification.

Hong Kong

Our subsidiary incorporated in Hong Kong is subject to Hong Kong profit tax at a rate of 16.5% for taxable income earned in Hong Kong before April 1, 2018. Starting from the financial year commencing on April 1, 2018, 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 profit tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the Track Record Period.

RESULTS OF OPERATIONS

Comparisons between 2022 and 2021

Revenue from contracts with customers

Our revenue increased by 11.9% to RMB687.4 million in 2022 from RMB614.3 million in 2021, attributable to the increases in the revenue from our Internet medical services and smart healthcare products.

Cloud Hospital Platform Services

Revenue generated from our cloud hospital platform services segment decreased slightly to RMB122.4 million in 2022 from RMB128.0 million in 2021, mainly because certain milestones were not achieved on time due to adverse impacts caused by the COVID-19 pandemic in 2022, which delayed revenue recognition. During the COVID-19 pandemic, we also experienced heightened competition as certain market participants adopted aggressive pricing strategies when faced with difficult market conditions.

Internet Medical Services

Revenue generated from our Internet medical services segment increased by 47.6% to RMB137.8 million in 2022 from RMB93.4 million in 2021, primarily as the volume of the Internet medical services we provided increased from approximately 5.1 million in 2021 to approximately 8.9 million in 2022, mainly attributable to our increased efforts on local operations to stimulate the activeness of medical institutions using the Internet medical services.

Health Management Services

Revenue generated from our health management services segment decreased by 13.2% to RMB209.2 million in 2022 and RMB240.9 million in 2021, primarily because we suspended the operations of eight medical institutions for different durations in the first three quarters of 2022 due to the COVID-19 outbreaks in Shanghai, Shenyang, Chongqing, Xi'an, Hefei, Dandong, Fuzhou and Chengdu in the period. During such period, customer demand for routine health management services such as health check-ups reduced, resulting in more intensive competition for customer base among health management service providers.

Smart Healthcare Products

Revenue generated from our smart healthcare products segment increased by 43.4% to RMB218.0 million in 2022 from RMB152.0 million in 2021, primarily due to the delivery of more projects in 2022. We secured a major contract with a medical institution in 2022, under which we provided solutions for customized smart healthcare products, primarily for remote medical services.

Cost of sales and services

Our cost of sales and services increased by 16.9% to RMB519.0 million in 2022 from RMB444.1 million in 2021, which is largely in line with our increase in revenue from contracts with customers.

Cloud Hospital Platform Services

Cost of sales and services of our cloud hospital platform services segment remained relatively stable at RMB65.8 million in 2022 and RMB68.5 million in 2021, respectively, which is in line with our revenue from cloud hospital platform services.

Internet Medical Services

Cost of sales and services of our Internet medical services increased by 40.7% to RMB121.0 million in 2022 from RMB86.0 million in 2021, which is mainly due to the increased volume of services we provided in 2022.

Health Management Services

Cost of sales and services of our health management services segment decreased by 13.7% to RMB131.6 million in 2022 from RMB152.5 million in 2021, primarily due to the decreases in: (i) revenue generated from this segment as we suspended the operations of eight medical institutions in the first three quarters of 2022 due to the COVID-19 outbreaks; (ii) employee benefit costs as we disposed some of our medical institutions in May 2021 and January 2022; and (iii) depreciation of property, plant and equipment as we continue to use the fully depreciated assets.

Smart Healthcare Products

Cost of sales and services of our smart healthcare products segment increased 46.4% to RMB200.5 million in 2022 from RMB137.0 million in 2021, which is largely in line with our increased revenue of this segment.

Gross profit and gross margin

As a result of the foregoing, our gross profit decreased to RMB168.5 million in 2022 from RMB170.2 million in 2021.

Our gross margin decreased slightly to 24.5% in 2022 from 27.7% in 2021, mainly due to a change to our revenue mix. In particular:

Cloud Hospital Platform Services

Gross margin of our cloud hospital platform services segment remained relatively stable at 46.4% in 2021 and 46.2% in 2022.

Internet Medical Services

Gross margin of our Internet medical services segment increased to 12.2% in 2022 from 7.9% in 2021, primarily as (i) we gradually reduced the portion of free services or offered fewer discounts in cities which we have a longer period of operation; and (ii) we generated more platform management fees from third-party medical institutions as a percentage of service fees received by such medical institutions from patients on a net basis, which were higher-margin in nature.

Health Management Services

Gross margin of our health management services segment remained relatively stable at 36.7% in 2021 and 37.1% in 2022.

Smart Healthcare Products

Gross margin of our smart healthcare products segment decreased to 8.0% in 2022 from 9.9% in 2021, primarily due to our competitive pricing strategies facing market competition and customers' increasing bargaining power on pricing.

Selling and marketing expenses

Our selling and marketing expenses decreased by 7.2% to RMB126.1 million in 2022 from RMB135.8 million in 2021, primarily due to a decrease in our share-based compensation expenses due to our issuance of Pre-[**REDACTED**] SOS Options to our selling and marketing employees in January 2021.

Research and development expenses

Our research and development expenses decreased by 8.6% to RMB79.0 million in 2022 from RMB86.4 million in 2021, primarily due to a decrease in our share-based compensation expenses due to our issuance of Pre-[**REDACTED**] SOS Option to our research and development employees in January 2021.

Administrative expenses

Our administrative expenses decreased by 34.6% to RMB139.4 million in 2022 from RMB213.3 million in 2021, primarily due to the decrease in our share-based compensation expenses due to our issuance of Pre-[**REDACTED**] SOS Options to our administrative employees in January 2021, partially offset by a decrease in the [**REDACTED**] expenses for the proposed [**REDACTED**].

Other income

Our other income increased by 31.8% to RMB18.9 million in 2022 from RMB14.4 million in 2021, primarily due to increased government grants as we completed a project which was entitled to a relatively large amount of government grants in 2022.

Other losses/gains, net

We recorded net other losses of RMB1.8 million in 2022, changed from net other gains of RMB20.9 million in 2021, primarily because the net foreign exchange losses increased due to the fluctuation of foreign exchange rates in 2022.

Finance costs, net

Our net finance costs remained relatively stable at RMB38.1 million in 2022 and RMB35.1 million in 2021.

Share of losses from investments accounted for using the equity method

Our share of losses from investments accounted for using the equity method remained relatively stable at RMB4.1 million and RMB4.8 million in 2021 and 2022, respectively.

Income tax expense

Our income tax expense increased significantly to RMB5.1 million in 2022 from RMB1.6 million in 2021, primarily attributable to income tax expenses incurred by our subsidiaries that became profitable in 2022.

Loss for the year

As a result of the foregoing, our loss for the year decreased by 17.3% to RMB243.4 million in 2022 from RMB294.4 million in 2021.

Comparisons between 2021 and 2020

Revenue from contracts with customers

Our revenue increased by 22.1% to RMB614.3 million in 2021 from RMB503.0 million in 2020, attributable to the increases in revenue from all of our business segments in 2021.

Cloud Hospital Platform Services

Revenue generated from our cloud hospital platform services segment increased by 62.8% to RMB128.0 million in 2021 from RMB78.6 million in 2020, primarily due to the increased cooperation with local governments and medical institutions.

Internet Medical Services

Revenue generated from our Internet medical services segment increased by 69.7% to RMB93.4 million in 2021 from RMB55.1 million in 2020, primarily as the volume of the Internet medical services we provided increased from approximately 3.6 million in 2020 to approximately 5.1 million in 2021, mainly attributable to our adoption of competitive pricing strategies, such as discounts on online consultation services, and due to an increased number of medical institutions connected to our platforms, which led to increases in the volumes of services.

Health Management Services

Revenue generated from our health management services segment increased by 8.3% to RMB240.9 million in 2021 from RMB222.5 million in 2020 as the volume of such services increased from approximately 0.48 million in 2020 to approximately 0.53 million in 2021.

Smart Healthcare Products

Revenue generated from our smart healthcare products segment remained relatively stable at RMB152.0 million in 2021 and RMB146.9 million in 2020.

Cost of sales and services

Our cost of sales and services increased by 20.4% to RMB444.1 million in 2021 from RMB368.9 million in 2020, which is largely in line with our increase in revenue from contracts with customers.

Cloud Hospital Platform Services

Cost of sales and services of our cloud hospital platform services segment increased by 40.9% to RMB68.5 million in 2021 from RMB48.6 million in 2020, primarily due to an increase in our cost of sales of hardware, software and others as well as raw materials used, which grew at a slower pace compared to the increase in our revenue for this segment.

Internet Medical Services

Cost of sales and services of our Internet medical services segment increased by 68.8% to RMB86.0 million in 2021 from RMB51.0 million in 2020, which is mainly due to the increased volume of services we provided in 2021.

Health Management Services

Cost of sales and services of our health management services segment remained relatively stable at RMB152.5 million in 2021 and RMB150.3 million in 2020, which is primarily due to the increase in our employee benefit expenses, as we enjoyed government relief related to the COVID-19 pandemic in 2020 partially offset by the decrease in depreciation of property, plant and equipment as we continue to use the fully depreciated assets.

Smart Healthcare Products

Cost of sales and services of our smart healthcare products segment increased by 15.1% to RMB137.0 million in 2021 from RMB119.0 million in 2020, primarily due to an increase in our cost of sales of hardware, software and others as well as raw materials used.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased to RMB170.2 million in 2021 from RMB134.1 million in 2020.

Our gross margin increased to 27.7% in 2021 from 26.7% in 2020, primarily due to the substantial increase in the gross profit of our cloud hospital platform services segment and our health management services segment. In particular:

Cloud Hospital Platform Services

Gross margin of our cloud hospital platform services segment increased to 46.4% in 2021 from 38.1% in 2020, primarily due to the gross margin of certain projects which generally improved in 2021 mainly due to stronger brand awareness and higher customer recognition, and these projects accounted for the majority of the total revenue of this segment.

Internet Medical Services

Gross margin of our Internet medical services segment remained relatively stable at 7.9% in 2021 and 7.4% in 2020.

Health Management Services

Gross margin of our health management services segment increased to 36.7% in 2021 from 32.4% in 2020, primarily because the growth of revenue outpaced the growth of cost of sales.

Smart Healthcare Products

Gross margin of our smart healthcare products segment decreased to 9.9% in 2021 from 19.0% in 2020, mainly due to our competitive pricing strategies to increase our market presence in primary medical institutions and hospitals, which we believe will allow us to generate additional synergy from the cloud hospital platform services and Internet medical services in the long term.

Selling and marketing expenses

Our selling and marketing expenses increased by 40.4% to RMB135.8 million in 2021 from RMB96.7 million in 2020, primarily due to the increase in our share-based compensation and increase in employee benefits.

Research and development expenses

Our research and development expenses increased by 29.4% to RMB86.4 million in 2021 from RMB66.8 million in 2020, primarily due to the increase in our share-based compensation.

Administrative expenses

Our administrative expenses increased by 88.0% to RMB213.3 million in 2021 from RMB113.5 million in 2020, primarily due to the increase in our share-based compensation.

Other income

Our other income decreased by 58.1% to RMB14.4 million in 2021 from RMB34.3 million in 2020, primarily due to decreased government grants as we completed fewer projects which were entitled to government grants in 2021.

Other losses/gains, net

We recorded net other gains of RMB20.9 million in 2021, changed from net other losses of RMB23.7 million in 2020, primarily because we recognized gains from the disposal of our subsidiaries in 2021, while we recognized losses from the disposal of our subsidiaries in 2020.

Finance costs, net

Our net finance costs decreased by 18.7% to RMB35.1 million in 2021 from RMB43.2 million in 2020, primarily due to decreases in: (i) interest costs on lease liabilities, as we terminated and modified leasing contracts in relation to our disposal of subsidiaries; (ii) interest expenses for payables to eligible employees, as we do not have new restricted stock plans; and (iii) interest costs on bank borrowings, as we repaid certain of our then-outstanding bank borrowings.

Share of losses from investments accounted for using the equity method

Our share of losses from investments accounted for using the equity method remained relatively stable at RMB3.9 million and RMB4.1 million in 2020 and 2021, respectively.

Income tax expense

Our income tax expense increased significantly to RMB1.6 million in 2021 from a tax credit of RMB4.5 million in 2020, primarily because of the utilization of previously unrecognized tax losses in 2021.

Loss for the year

As a result of the foregoing, our loss for the year increased by 48.3% to RMB294.4 million in 2021 from RMB198.5 million in 2020.

DESCRIPTION OF CERTAIN COMPONENTS OF OUR CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets forth the components of our consolidated statements of financial position as of the dates indicated:

	As of December 31,		
	2020	2021	2022
	(RMB in thousands)		
Non-current assets			
Property, plant and equipment	132,022	33,868	28,789
Right-of-use assets	100,206	47,098	52,271
Intangible assets	2,935	4,428	3,847
Deferred income tax assets	4,621	3,089	1,092
Investments accounted for using the equity method	101,344	196,680	191,918
Long-term trade receivables[(1)]	–	34,468	19,309
Prepayments	1,453	636	718
Total non-current assets	**342,581**	**320,267**	**297,944**
Current assets			
Inventories	8,805	21,886	18,453
Assets recognized from costs to fulfil a contract	1,140	7,526	8,768
Contract assets	7,781	4,773	6,621
Trade receivables	124,441	167,958	151,143
Financial assets at fair value through profit or loss	27,690	–	–
Other receivables	38,694	43,660	31,766
Prepayments	4,934	11,105	12,059
Other current assets	4,154	4,522	55,830
Cash and cash equivalents	391,681	364,737	350,748
Restricted deposits	495	171	1,016
Assets classified as held for sale	1,706	–	–
Total current assets	**611,521**	**626,338**	**636,404**
Non-current liabilities			
Borrowings	239,870	389,590	509,420
Other payables	300	–	–
Long-term trade payables	–	–	1,900
Lease liabilities	101,662	30,451	35,114
Contract liabilities	–	12,233	10,951
Deferred income	15,704	11,898	6,680
Financial liability for redeemable rights	301,417	309,914	356,228
Total non-current liabilities	**658,953**	**754,086**	**920,293**

(1) The long-term trade receivables are related to the sales of certain smart healthcare products (mainly including computed tomography scanner and digital angiography machine) from us to certain medical institutions. According to the payment terms of the relevant contracts, the total consideration of such sales will be collected within five years. We agreed with the payment term of five years as we plan to leverage the sales of smart healthcare products as an entry point to establish cooperation with such medical institutions and establish and expand our Internet medical services with such medical institutions.

	As of December 31,		
	2020	2021	2022
	(RMB in thousands)		
Current liabilities			
Short-term borrowings	71,118	460	280
Contract liabilities	41,647	38,496	40,857
Trade payables	117,274	199,996	234,110
Other payables and accruals	163,260	186,153	158,263
Lease liabilities	31,128	34,718	26,510
Advances from third parties	1,000	–	–
Other current liabilities	190	58	33
Total current liabilities	**425,617**	**459,881**	**460,053**

Property, Plant and Equipment

Our property, plant and equipment mainly consists of buildings, electronic equipment, office furniture and others, assets under construction and leasehold improvement.

As of December 31, 2020, 2021 and 2022, our property, plant and equipment was RMB132.0 million, RMB33.9 million and RMB28.8 million, respectively. The decrease in our property, plant and equipment as of December 31, 2021 compared to December 31, 2020 was primarily due to our reduced equity interests in Neusoft Consulting from 100% to 49%, which became an associate of our Group. Our property, plant and equipment decreased slightly from RMB33.9 million as of December 31, 2021 to RMB28.8 million as of December 31, 2022 due to depreciation.

Investments Accounted Using the Equity Method

The investments accounted for using the equity method mainly represents our investments in associates during the Track Record Period. Since we have seat(s) in or appoint member(s) to the board or investment decision committee of our associates, we are considered to have significant influence but not control over the associates.

We have instituted internal policies regulating our investments, such as setting up joint ventures and holding equity interests in other companies. By carrying out long-term investments compatible with our development strategies, we aim to facilitate the growth of our solutions and create more synergies between our investments and business. Our investment policies mainly focus on serving our cloud hospital platform business. For each investment project, we carefully select suitable members from several departments to conduct research on the feasibility of the project. The investment project research team comprises: (i) experts from the business department with abundant experience and knowledge in the digital healthcare services market; (ii) members from the legal department with legal qualifications and relevant experience; and (iii) members from the finance department with accounting qualifications and relevant experience, among others. If necessary, we will engage independent professional agencies to help us with investment projects.

As of December 31, 2020, 2021 and 2022, our investments accounted for using the equity method were RMB101.3 million, RMB196.7 million and RMB191.9 million, respectively. The increase in our investments accounted for using the equity method as of December 31, 2021 compared to December 31, 2020 was primarily due to our reduced equity interests in Neusoft Consulting from 100% to 49%, which became an associate of our Group. Our investments accounted for using the equity method remained relatively stable as of December 31, 2022 and December 31, 2021.

The following table sets forth the movements in our investments accounted for using the equity method for the years indicated:

	Year ended December 31,		
	2020	**2021**	**2022**
	(RMB in thousands)		
At beginning of the year	7,634	101,344	196,680
Additions[(1)]	100,000	99,484	–
Share of loss from investments in associates	(3,164)	(4,148)	(4,762)
Disposal of associates[(2)]	(3,126)	–	–
At end of the year	**101,344**	**196,680**	**191,918**

(1) On February 17, 2020, we entered into an investment agreement with Dalian Xikang Yunshe Development Co., Ltd. ("Dalian Yunshe") and we subscribed for 11.83% equity interests of Dalian Yunshe. We fully paid cash consideration equivalent to approximately RMB100.0 million on December 28, 2020. Since we have appointed one member in the board of director of Dalian Yunshe, we are considered to have significant influence but not control over this associate.

On April 20, 2021, Jiangsu Lixin Technology Development Co., Ltd. ("Jiangsu Lixin") entered into an investment agreement with Neusoft Xikang Healthcare Technology Co., Ltd. and Neusoft Consulting. Jiangsu Lixin subscribed for 51% equity interests of Neusoft Consulting through capital increase of RMB98.4 million. As a result, our interest in Neusoft Consulting decreased from 100% to 49%, and Neusoft Consulting became an associate of our Group since then.

(2) We directly hold ordinary shares in Shanghai Lanxi Health Service Co., Ltd. ("Shanghai Lanxi"), Shanghai Shuoyuan Health Management Co., Ltd. ("Shanghai Shuoyuan") and Dalian Yunshe, and are entitled to nominate two members in the board of director of such companies pursuant to the shareholders agreements.

No impairment on our investment in associates was recognized because: (i) our Directors did not identify any impairment indicator and considered not necessary to recognize impairment of our investment in Dalian Yunshe as we invested in Dalian Yunshe based on the valuation report issued by an independent appraiser, and Dalian Yunshe recorded a net cash inflow in operating activities in 2020 and has no adverse changes since our investment. In addition, revenue of Dalian Yunshe increased by 16.2% in 2021 as compared to the same in 2020 and revenue of Dalian Yunshe also increased by 23.5% in 2022 as compared to the same in 2021; (ii) our Directors did not identify any impairment indicator and considered not necessary to recognize impairment of our investment in Shanghai Lanxi because it is estimated that Shanghai Lanxi would achieve improving financial performance in the year ending December 31, 2023; (iii) Shanghai Shuoyuan was liquidated in 2020; and (iv) our directors did not identify any impairment indicator and considered not necessary to recognize impairment of investment in Neusoft Consulting. Jiangsu Lixin subscribed for 51% equity interest of Neusoft Consulting through capital increase of RMB98.4 million in 2021 based on the valuation report issued by an independent appraiser. The business and operation of Neusoft Consulting remained stable. The primary asset of Neusoft Consulting is a real property located in Zhangjiang, Shanghai, the market value of which also remained stable. We therefore believe that there has been no adverse changes since the valuation.

Contract Assets

Our contract assets represent our right to consideration for work we have completed but have not billed to our customers, arising from our cloud hospital platform services, Internet medical services and health management services and smart healthcare products. The following table sets forth our contract assets as of the dates indicated:

	As of December 31,		
	2020	**2021**	**2022**
	(RMB in thousands)		
Contract assets from			
– Cloud hospital platform services	5,783	1,321	4,694
– Internet medical services	–	–	–
– Health management services	–	–	–
– Smart healthcare products	2,786	4,280	4,311
Less: allowance for impairment of contract assets	(788)	(828)	(2,384)
Total	**7,781**	**4,773**	**6,621**

As of December 31, 2020, 2021 and 2022, our contract assets were RMB7.8 million, RMB4.8 million and RMB6.6 million, respectively. The decrease in our contract assets as of December 31, 2021 compared to December 31, 2020 was primarily due to the reclassification to trade receivables after fulfilling all performance obligations to customers. The increase in our contract assets as of December 31, 2022 compared to December 31, 2021 was primarily due to an increase in the warranty deposit related to projects of cloud hospital platform services delivered in 2022.

Of the RMB6.6 million in contract assets as of December 31, 2022, RMB2.2 million, or 33.3%, had been settled as of April 30, 2023. Among the subsequently settled contract assets of RMB2.2 million as of April 30, 2023, RMB0.3 million or 6.4%, was from our cloud hospital platform services, and RMB1.9 million or 44.2%, was from our smart healthcare products, respectively.

Trade Receivables

Our trade receivables represent amounts due from third-party customers for services performed in the ordinary course of business. The following table sets forth our trade receivables as of the dates indicated:

	As of December 31,		
	2020	2021	2022
	(RMB in thousands)		
Trade receivables from contracts with customers			
– Third parties	162,985	223,001	236,811
– Related parties	9,670	14,836	10,971
Less: allowance for impairment of trade receivables	(48,214)	(69,879)	(96,639)
Total	**124,441**	**167,958**	**151,143**

As of December 31, 2020, 2021 and 2022, our trade receivables were RMB124.4 million, RMB168.0 million and RMB151.1 million, respectively. The increases in our trade receivables as of December 31, 2020 and 2021 were generally in line with our revenue growth. The decrease in our trade receivables as of December 31, 2022 compared to 2021, was primarily due to an increase in the allowance for impairment of trade receivables as of December 31, 2022, mainly due to the temporary payment delay from government customers of our cloud hospital platform services and smart healthcare products as they prioritized combating COVID-19 in their resource allocation.

The credit terms given to trade customers are determined on an individual basis. The normal credit period of trade receivables related to Internal medical services and health management services is mainly within 90 days, while the normal credit period of trade receivables related to cloud hospital platform services and smart healthcare products is mainly within one year. The ageing analysis of our trade receivables based on invoice date is as follows:

	As of December 31,		
	2020	**2021**	**2022**
	(RMB in thousands)		
– Up to 3 months	83,669	118,727	91,131
– 3 months to 1 year	26,230	37,267	37,510
– 1-2 years	35,318	33,171	53,334
– 2-3 years	4,606	23,648	20,793
– 3-4 years	1,094	2,768	20,999
– 4-5 years	1,218	532	2,156
– Over 5 years	20,520	21,724	21,859
Less: allowance for impairment of trade receivables	(48,214)	(69,879)	(96,639)
Total	**124,441**	**167,958**	**151,143**

Of the RMB151.1 million in trade receivables as of December 31, 2022, RMB58.7 million, or 38.8%, had been settled as of April 30, 2023. Among the subsequently settled trade receivables of RMB58.7 million as of April 30, 2023, RMB34.0 million, or 37.3%, aged within three months, RMB9.2 million, or 24.5%, aged from three months to one year, RMB8.7 million, or 16.3%, aged from one to two years, RMB5.7 million, or 27.3%, aged from two to three years, and RMB1.1 million, or 5.1%, aged from three to four years, respectively.

During the Track Record Period, most of our trade receivables were outstanding for less than one year. The following table sets forth the turnover days of our trade receivables for the years indicated:

	Year ended December 31,		
	2020	**2021**	**2022**
	(days)		
Trade receivables turnover days(1)	85	86	84
Trade receivables and contract assets turnover days(2)	89	89	87

(1) Trade receivables turnover days equal the average of the opening and closing balances of trade receivables divided by total revenue from contracts with customers for the same year and multiplied by 360 days for 2020, 2021 and 2022.

(2) Trade receivables and contract assets turnover days equal the average of the opening and closing balances of trade receivables and contract assets divided by total revenue from contracts with customers for the same year and multiplied by 360 days for 2020, 2021 and 2022.

Our trade receivables turnover days remained relatively stable at 85, 86 and 84 in 2020, 2021 and 2022, respectively.

Our trade receivables and contract assets turnover days remained relatively stable at 89, 89 and 87 in 2020, 2021 and 2022, respectively.

We seek to maintain strict control over our outstanding trade receivables to minimize credit risk. We have established dedicated teams responsible for monitoring and collecting outstanding trade receivables on an ongoing basis, and hold monthly meetings to review the collection process. We have also implemented policies to enhance trade receivables collection, including customer credit ratings and management procedures to minimize our credit risk exposure. For trade receivables, we have applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime expected credit losses. Trade receivables are grouped based on the days past due to measure the expected credit losses. In determining whether a counterparty has good credit, we make reference to external credit ratings and historical observed default rates over the expected life. We also adjust historical loss rates based on expected changes in factors including the growth rate of China's GDP, the nominal CAGR of China's medical and healthcare industries, the growth rate of China's real government consumption and China's unemployment rate, which we consider to be the most relevant factors. In accordance with HKFRS 9, we have made provision of 3.1%, 29.5%, 100.0%, 100.0%, 100.0% and 100.0% of the trade receivables related to Internet medical services and health management services aged up to one year, from one to two years, from two to three years, from three to four years, from four to five years and over five years as of December 31, 2022, respectively. We have also made provision of 54.2%, 87.3%, 97.5%, 100.0% and 100.0% of the trade receivables related to cloud hospital platform services and smart healthcare products aged from one to two years, from two to three years, from three to four years, from four to five years and over five years as of December 31, 2022, respectively. For details, see note 22 of the Accountant's Report in Appendix I to this Document. Based on the foregoing and the due diligence conducted, our Directors and the Sole Sponsor have found no evidence to suggest that the outstanding trade receivables aged over the credit period are irrecoverable and, as such, are of the view that no further impairment is necessary.

Other Receivables

Our other receivables primarily comprise receivables due from related parties and third parties, deposits, advances to staff and equity transfer receivables. The following table sets forth our prepayments and other receivables as of the dates indicated:

	As of December 31,		
	2020	2021	2022
	(RMB in thousands)		
Receivables from third parties[i]	28,111	–	–
Deposits	16,779	15,766	15,148
Payments on behalf of other company in relation to purchase of equipment[2]	5,588	–	–
Advance to staff	2,727	2,515	1,576
Equity transfer receivables	2,500	30,130	30,130
Others	1,518	4,165	3,797
Less: allowance for impairment of other receivables	(18,529)	(8,916)	(18,885)
Total	**38,694**	**43,660**	**31,766**

(1) To further strengthen our capabilities for delivering quality cardiology healthcare as part of our remote digital clinic services, we purchased a small amount of healthcare products from suppliers starting in 2020 and sold to a total of 13 Chinese distributors, who then resold such healthcare products to several medical institutions that collaborated with us in building and operating cardiology consortiums. The relevant healthcare products are delivered from the suppliers to the distributors directly without our discretion. We charge a surcharge that averaged approximately 3.0%. As such, we were deemed to be acting as an agent in the arrangement, and only the surcharge was recognized as our revenue. In 2020, revenue generated from such arrangement was RMB0.8 million, accounting for approximately 0.6% of the revenue from our smart healthcare products and approximately 0.2% of our total revenue in 2020. Upon the delivery of the relevant products to the relevant distributors, we record receivables from third parties, and payables to third parties that equal the amount of receivables plus the surcharge. We only make payments to the relevant suppliers after our receipt of payments from the relevant distributors. We expect to continue such arrangement in a small size going forward, and believe that its impact on our financial results remained insignificant due to its limited size.

(2) In order to support the development of a primary medical institution in Shenyang for the purposes of accumulating patient base and strengthen the local service capabilities for the potential opportunities to develop our Internet medical services with such medical institution, we purchased medical equipment on behalf of such medical institution in 2020. In 2021, the medical institution suffered financial difficulties and was liquidated. The balance of payments on behalf of other company in relation to purchase of equipment was RMB5.6 million as of December 31, 2020 and no other additional purchases were made in 2021. In 2021, we provided full provision on the relevant outstanding balances of RMB5.6 million as of December 31, 2020.

As of December 31, 2020, 2021 and 2022, our other receivables were RMB38.7 million, RMB43.7 million and RMB31.8 million, respectively. The increase in our other receivables as of December 31, 2021 compared to December 31, 2020 was primarily due to an increase in the equity transfer receivables in relation to our disposal of subsidiaries. The decrease in our other receivables as of December 31, 2022 compared to December 31, 2021 was primarily due to an increase in allowance for impairment of other receivables in relation to expected credit loss.

As of December 31, 2020, 2021 and 2022, we had equity transfer receivables of RMB2.5 million, RMB30.1 million and RMB30.1 million. The equity transfer receivables are mainly the consideration of the disposal of our subsidiaries to be paid by third-party purchasers. The increase in our equity transfer receivables as of December 31, 2021 compared to December 31, 2020 was due to a new disposal in 2021. The payments are not yet due under the credit terms of the respective contracts. We expect to receive these payments by the end of 2023.

Our RMB30.1 million of equity transfer receivables was not yet settled as of April 30, 2023.

Financial Liability for Redeemable Rights

Our financial liability for redeemable rights primarily refers to the ordinary shares with redemption rights issued by our Company to one of the shareholders in December 2019. Pursuant to the agreement, our Company or a third party designated by our Company shall repurchase all such shares held by the shareholder upon certain conditions. For details, see note 29 of the Accountant's Report in Appendix I to this document.

As of December 31, 2020, 2021 and 2022, our financial liability for redeemable rights was RMB301.4 million, RMB309.9 million and RMB356.2 million, respectively. The increase in our financial liability for redeemable rights as of December 31, 2022 compared to December 31, 2021 was primarily due to the fluctuation of foreign exchange rates.

As redeemable rights issued by our Company will be automatically cancelled upon the [**REDACTED**], financial liability for redeemable rights will be reclassified to equity as a result of the automatic reclassification of all the treasury shares upon the [**REDACTED**] and our net liabilities position will be largely alleviated as a result.

Trade Payables

Our trade payables represent liabilities for goods and services provided to us that remain unpaid. As of December 31, 2020, 2021 and 2022, our trade payables were RMB117.3 million, RMB200.0 million and RMB234.1 million, respectively. The increases in our trade payables as of December 31, 2020, 2021 and 2022 were primarily due to increases in purchases of goods and services from our suppliers in line with our business growth.

The following table sets forth an ageing analysis of our trade payables as of the dates indicated:

	As of December 31,		
	2020	**2021**	**2022**
	(RMB in thousands)		
– Up to 3 months	78,004	142,431	144,580
– 3 to 6 months	1,622	18,034	10,613
– 6 months to 1 year	2,204	22,838	26,838
– 1 to 2 years	18,892	14,192	40,463
– 2 to 3 years	6,772	1,517	9,354
– 3 to 4 years	9,683	467	1,391
– 4 to 5 years	5	439	354
– over 5 years	92	78	517
Total	**117,274**	**199,996**	**234,110**

Of the RMB234.1 million in trade payables as of December 31, 2022, RMB78.0 million, or 33.3%, had been settled as of April 30, 2023. Among the subsequently settled trade payables of RMB78.0 million as of April 30, 2023, RMB53.2 million, or 36.8%, aged within three months, RMB1.5 million, or 14.2%, aged from three months to six months, RMB9.0 million, or 33.6%, aged from six months to one year, RMB9.0 million, or 22.2%, aged from one to two years, RMB4.9 million, or 52.1%, aged from two to three years, and RMB0.4 million, or 28.6%, aged from three to four years, respectively.

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

	Year ended December 31,		
	2020	**2021**	**2022**
	(days)		
Trade payables turnover days(1)	104	129(2)	151(2)

(1) Trade payables turnover days equal the average of the opening and closing balances of trade payables divided by total cost of sales and services for the same year and multiplied by 360 days for 2020, 2021 and 2022.

(2) Our trade payable turnover days increased in 2020, 2021 and 2022 mainly because we adjusted the settlement of trade payables according to our working capital management.

Contract Liabilities

As of December 31, 2020, 2021 and 2022, we had contract liabilities of RMB41.6 million, RMB50.7 million and RMB51.8 million, respectively, which primarily represent advance payments received from our customers upon which the performance obligations have been established while the underlying services are yet to be provided by us. The general increase of our contract liabilities is in line with the growth of our business. Specifically, the increase in our contract liabilities as of December 31, 2021 compared to December 31, 2020 was primarily due to the increase of the prepayments received from health management services. Such prepayments are recognized as revenue upon delivery of health management services. Our contract liabilities remained relatively stable as of December 31, 2022 compared to December 31, 2021.

Of the RMB51.8 million in contract liabilities as of December 31, 2022, RMB16.1 million, or 31.2%, had been recognized as revenue as of April 30, 2023. Among the contract liabilities subsequently recognized as revenue of RMB16.1 million as of April 30, 2023, RMB1.8 million, or 35.3%, was from cloud hospital platform services, RMB0.5 million, or 21.7%, was from Internet medical services, RMB12.1 million, or 29.2%, was from health management services, and RMB1.7 million, or 63.1%, was from smart healthcare products, respectively.

Other Payables and Accruals

Our other payables and accruals mainly represent payment to eligible employees, payroll and welfare payables and others due to related parties. The following table sets forth a breakdown of our other payables and accruals as of the dates indicated:

	As of December 31,		
	2020	**2021**	**2022**
	(RMB in thousands)		
Others due to related parties	9,008	9,218	–
Payables to third parties[(1)]	28,217	–	–
Payroll and welfare payables	42,293	46,759	36,600
Payables for purchase of property, plant and equipment	5,890	2,178	2,067
Tax payables	482	9,403	3,447
Payment to eligible employees[(2)]	65,055	95,864	96,943
Short-term leases payables	2,451	1,064	2,112
Accrual expenses	3,710	6,787	7,022
[**REDACTED**] expenses	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Others	6,454	9,240	3,578
Total	**163,560**	**186,153**	**158,263**

(1) For details on the background of payables to third parties, see "– Other Receivables." As of December 31, 2020, payables to the suppliers were larger than the receivables from third parties, because we had received certain payments from third parties but had not made the corresponding payments to the suppliers in accordance with the applicable credit terms.

(2) We granted restricted shares to eligible employees in 2017, 2018 and 2021. Pursuant to our restricted share scheme, we agree to repurchase the restricted shares granted to our employees with the same amount of cash we received from them in relation to the grant if such employees resign within three years after the grant day, and with twice the cash we received from them in relation to the grant if such employees resign beyond three years after the grant day. Payment to eligible employees are the payables to our eligible employees. Due to

such repurchase obligation, the shares issued to KangRich which holds the shares on behalf of these employees are recognised as our treasury shares. See note 28 to the Accountant's Report in Appendix I to this document. In addition, if the eligible employees resign prior to [**REDACTED**], the payment to eligible employees under other payables will be settled through paying out the cash to them in relation to the grant, while the recognition of the corresponding treasury shares will remain unchanged. Upon [**REDACTED**], the repurchase obligation of the restricted shares granted to eligible employees who have not resigned will cease to exist, and hence the payment to eligible employees and the corresponding treasury shares will be reversed respectively, while the treasury shares granted to the eligible employees who already resigned prior to the [**REDACTED**] will be fully cancelled, by offsetting share capital and share premium accordingly.

As of December 31, 2020, 2021 and 2022, our other payables and accruals were RMB163.6 million, RMB186.2 million and RMB158.3 million, respectively. The increase in our other payables and accruals as of December 31, 2021 compared to December 31, 2020 was primarily due to the increase in contribution from eligible employees, mainly relating to restricted shares granted to employees. The decrease in our other payables and accruals as of December 31, 2022 compared to December 31, 2021 was primarily due to the decrease in payroll and welfare payables resulting from stringent cost controls in 2022.

Net Current Assets

	As of December 31,			As of April 30,
	2020	**2021**	**2022**	**2023**
		(RMB in thousands)		
				(unaudited)
Current assets				
Inventories	8,805	21,886	18,453	20,821
Assets recognized from costs to fulfil a contract	1,140	7,526	8,768	13,392
Contract assets	7,781	4,773	6,621	5,068
Trade receivables	124,441	167,958	151,143	166,654
Financial assets at fair value through profit or loss	27,690	–	–	–
Other receivables	38,694	43,660	31,766	33,254
Prepayments	4,934	11,105	12,059	7,268
Other current assets	4,154	4,522	55,830	26,784
Cash and cash equivalents	391,681	364,737	350,748	239,849
Restricted deposits	495	171	1,016	982
Assets classified as held for sale	1,706	–	–	–
Total current assets	**611,521**	**626,338**	**636,404**	**514,072**
Current liabilities				
Short-term borrowings	71,118	460	280	280
Contract liabilities	41,647	38,496	40,857	33,743
Trade payables	117,274	199,996	234,110	184,380
Other payables and accruals	163,260	186,153	158,263	142,204
Lease liabilities	31,128	34,718	26,510	23,540
Advances from third parties	1,000	–	–	–
Other current liabilities	190	58	33	36
Total current liabilities	**425,617**	**459,881**	**460,053**	**384,183**
Net current assets	**185,904**	**166,457**	**176,351**	**129,889**

Our net current assets decreased by 26.4% to RMB129.9 million as of April 30, 2023 from RMB176.4 million as of December 31, 2022, primarily due to decreased cash and cash equivalents, mainly relating to cash expended in daily operations, partially offset by a decrease in trade payables due to the payments to suppliers.

Our net current assets increased by 5.9% to RMB176.4 million as of December 31, 2022 from RMB166.5 million as of December 31, 2021, primarily due to increased other current assets, mainly relating to the reclassification of long-term trade receivables due within one year from non-current assets to current assets as of December 31, 2022, partially offset by an increase in trade payables in line with our business growth.

Our net current assets decreased by 10.5% to RMB166.5 million as of December 31, 2021 from RMB185.9 million as of December 31, 2020, primarily due to our increased trade payables outpacing the increase of trade receivables.

INDEBTEDNESS

The table below sets forth some details of our indebtedness as of the dates indicated:

	As of December 31,			As of April 30,
	2020	**2021**	**2022**	**2023**
	(RMB in thousands)			*(unaudited)*
Current				
Short-term borrowings	71,118	460	280	280
Lease liabilities	31,128	34,718	26,510	23,540
Non-current				
Borrowings	239,870	389,590	509,420	509,360
Lease liabilities	101,662	30,451	35,114	45,043
Total indebtedness	**443,778**	**455,219**	**571,324**	**578,223**

As of December 31, 2022 and April 30, 2023, we had utilized RMB509.7 million and RMB509.6 million, respectively, of our banking facilities. As of April 30, 2023, RMB102.4 million of our banking facilities remained unutilized.

Borrowings

As of December 31, 2020, 2021 and 2022 and April 30, 2023, the aggregate balance of our borrowings was RMB311.0 million, RMB390.1 million, RMB509.7 million and RMB509.6 million, respectively.

As of December 31, 2022 and April 30, 2023, all of our non-current borrowings and substantially all of our current borrowings were bank loans. The maturity dates of our outstanding borrowings ranged from 2024 to 2025.

The following table sets forth a breakdown of our borrowings based on repayment schedule as of the dates indicated:

	As of December 31,			As of April 30,
	2020	2021	2022	2023
	(RMB in thousands)			*(unaudited)*
Within 1 year	71,118	460	280	280
Between 1 and 2 years	89,950	150,080	239,570	239,520
Between 2 and 5 years	149,920	239,510	269,850	269,840
Total	**310,988**	**390,050**	**509,700**	**509,640**

Lease Liabilities

Our lease liabilities primarily arise from leases of certain office properties from third parties. As of December 31, 2020, 2021 and 2022 and April 30, 2023, the aggregate balance of our lease liabilities was RMB132.8 million, RMB65.2 million, RMB61.6 million and RMB68.6 million, respectively. The decrease in our lease liabilities as of December 31, 2021 compared to December 31, 2020 was primarily in relation to our disposal of subsidiaries in 2021. The decrease in our lease liabilities as of December 31, 2022 compared to December 31, 2021, primarily as we continued to pay rent in 2022, which was partially offset by an increase in the lease liabilities due to the lease renewal of some of our self-owned medical institutions. The increase in our lease liabilities as of April 30, 2023 compared to December 31, 2022 was primarily in relation to the lease renewal of some of our self-owned medical institutions.

Contingent Liabilities

As of December 31, 2022 and April 30, 2023, we were not involved in any material legal, arbitration or administrative proceedings that were expected to materially and adversely affect our financial condition or results of operations, although there can be no assurance that this will not be the case in the future. Our Directors confirm that there has been no material change in our contingent liabilities since April 30, 2023 to the date of this document.

In addition, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees or other contingent liabilities as of December 31, 2022 and April 30, 2023.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Historically, we have funded our working capital primarily from bank borrowings and equity financing. We expect to use a portion of the [**REDACTED**] from the [**REDACTED**] to fund our working capital requirements. We currently do not have any plans for material additional external financing.

Taking into account the net [**REDACTED**] from the [**REDACTED**] and the financial resources available to us, our Directors believe that we have sufficient working capital for our present requirements, that is, for at least 12 months from the date of this document.

Cash Flows

The following table sets forth selected cash flow statement information for the years indicated:

	Year ended December 31,		
	2020	**2021**	**2022**
	(RMB in thousands)		
Operating cash flows before movements in working capital	(40,094)	(81,022)	(80,089)
Movements in working capital	22,002	(3,498)	4,547
Interest received	1,051	1,209	1,959
Income taxes paid	(257)	(73)	(245)
Net cash used in operating activities	(17,298)	(83,384)	(73,828)
Net cash used in investing activities	(195,160)	(5,467)	(8,445)
Net cash generated from financing activities	216,288	64,897	64,624
Net increase/(decrease) in cash and cash equivalents	**3,830**	**(23,954)**	**(17,649)**
Cash and cash equivalents at the beginning of the year	414,297	391,681	364,737
Effects of exchange rate changes on cash and cash equivalents	(26,446)	(2,990)	3,660
Cash and cash equivalents at the end of the year	**391,681**	**364,737**	**350,748**

Net Cash Used in Operating Activities

Our cash flows from operating activities reflect: our loss before taxation adjusted for: (i) non-cash and non-operating items (such as depreciation and amortization, share-based compensation, and financial income and costs); (ii) the effects of movement in working capital (such as changes in inventories, provisions, as well as operating assets and liabilities); and (iii) other cash items (such as interest received and income tax paid).

We recorded net operating cash outflows of RMB17.3 million, RMB83.4 million and RMB73.8 million in 2020, 2021 and 2022, respectively. Going forward, in order to improve our net cashflows from operating activities, we plan to: (i) further expand our business and increase our revenue and profit from operations; (ii) improve cash inflows by enhancing payment collection from our customers and continue to monitor the agreed payment schedules of our customers based on our cash flow position, for example, we have established dedicated teams responsible for monitoring and collecting outstanding trade receivables on an ongoing basis and hold monthly meetings to review collection process. We have also implemented policies to enhance trade receivable collection, including customer credit ratings and management procedures to minimize our credit risk exposure; and (iii) control cash outflows by controlling our costs through budget planning and approval, negotiation and establishment of strategic relationships with our suppliers.

In 2022, we had net cash used in operating activities of RMB73.8 million, which represents our loss before income tax of RMB238.3 million, as adjusted by non-cash and non-operating items, and movements in working capital of: (i) an increase of RMB87.1 million in other operating assets, mainly due to the increase in trade receivables and long-term trade receivables as of December 31, 2022; and (ii) an increase of RMB55.8 million in other operating liabilities, mainly due to the increase in trade payables and contract liabilities.

In 2021, we had net cash used in operating activities of RMB83.4 million, which represents our loss before income tax of RMB292.8 million, as adjusted by non-cash and non-operating items, and movements in working capital of: (i) an increase of RMB90.7 million in other operating liabilities, mainly due to the increase in trade payables; and (ii) an increase of RMB94.6 million in other operating assets, mainly due to the increase in trade receivables and other receivables which was in line with the growth of our business.

In 2020, we had net cash used in operating activities of RMB17.3 million, which represents our loss before income tax of RMB203.0 million, as adjusted by non-cash and non-operating items, and movements in working capital of: (i) an increase of RMB64.6 million in other operating assets, mainly due to an increase in other receivables and trade receivables, which were in line with our business growth; and (ii) an increase of RMB49.9 million in other operating liabilities, mainly due to an increase in trade payables, which were in line with our business growth.

Net Cash Used in Investing Activities

Our cash inflows from investing activities primarily consist of proceeds from (i) sales of wealth management products, and (ii) disposal of subsidiaries. Our cash outflows from investing activities primarily consist of payment for purchases of (i) property, plant and equipment, and (ii) wealth management products.

In 2022, we had net cash used in investing activities of RMB8.4 million, which was primarily attributable to (i) payment for our purchases for property, plant and equipment and intangible assets of RMB7.3 million, and (ii) net cash outflow from our disposal of subsidiaries of RMB1.4 million, partially offset by proceeds by our disposal of property, plant and equipment of RMB0.3 million.

In 2021, we had net cash used in investing activities of RMB5.5 million, which was primarily attributable to (i) payment for our purchases for property, plant and equipment and intangible assets of RMB18.4 million, and (ii) net cash outflow from our disposal of subsidiaries of RMB16.7 million, partially offset by net proceeds from our sales of wealth management products of RMB28.0 million.

In 2020, we had net cash used in investing activities of RMB195.2 million, which was primarily attributable to (i) payment for our purchases of property, plant and equipment of RMB106.8 million, and (ii) payment for our investments in associates of RMB100.0 million.

Net Cash Generated from Financing Activities

Our cash inflows from financing activities primarily include (i) contributions from shareholders and (ii) proceeds from bank borrowings. Our cash outflows from financing activities primarily include (i) repayment of bank borrowings; (ii) principal elements of lease payments; and (iii) payment for interests.

In 2022, we had net cash generated from financing activities of RMB64.6 million, which was primarily attributable to net cash inflow from bank borrowings of RMB270.0 million, partially offset by our repayment of bank borrowings of RMB150.2 million and payments of lease liabilities of RMB28.0 million.

In 2021, we had net cash generated from financing activities of RMB64.9 million, which was primarily attributable to net cash inflow from bank borrowings of RMB240.8 million, partially offset by our repayment of bank borrowings of RMB161.0 million.

In 2020, we had net cash generated from financing activities of RMB216.3 million, which was primarily attributable to (i) contributions from shareholders of RMB278.8 million, and (ii) proceeds from bank borrowings of RMB150.0 million, partially offset by repayment of borrowings of RMB100.2 million.

SELECTED FINANCIAL RATIOS

The following table sets forth our key financial ratios for the years indicated:

	Year ended December 31,		
	2020	2021	2022
Revenue growth[1]	25.9	22.1	11.9
Gross margin[2]	26.7	27.7	24.5

(1) Revenue growth ratio equals revenue growth divided by revenue for the last year.

(2) Gross margin equals gross profit divided by revenue for the year.

Revenue Growth

For details, see "– Results of Operations."

Gross Margin

For details, see "– Results of Operations."

CAPITAL EXPENDITURES AND CONTRACTUAL COMMITMENTS

Capital Expenditures

During the Track Record Period, we incurred capital expenditures mainly for purchases of property, plant and equipment such as buildings, as well as purchases of intangible assets such as a laboratory information system and a picture archiving and communication system. The following table sets forth a breakdown of our capital expenditures for the years indicated:

	Year ended December 31,		
	2020	2021	2022
	(RMB in thousands)		
Purchases for property, plant and equipment and intangible assets	106,836	18,382	7,339

We expect our capital expenditures to increase in the future as our business continues to grow. We expect to fund our future capital expenditures with our available cash resources. We may reallocate the fund to be utilized on capital expenditures based on our ongoing business needs.

Lease Commitments

We have the following future aggregate minimum lease payments due under short-term leases (which are exempted from recognizing the related right-of-use assets and lease liabilities):

	As of December 31,		
	2020	2021	2022
	(RMB in thousands)		
Within one year	4,249	92	3

The lease commitments decrease significantly in 2021 mainly due to the lease that met short-term exemption in previous years signed new contracts in 2021. These new contracts meet the requirement of HKFRS 16 to recognize right-of-use assets and lease liabilities.

RELATED PARTY TRANSACTIONS AND BALANCES

During the Track Record Period, we entered into a number of related party transactions, pursuant to which: (i) we purchased goods and services (such as medical consumables and smart healthcare products, as well as technical, maintenance and other services) from certain related parties; (ii) we purchased fixed assets from certain related parties; (iii) we purchased right-of-use assets from certain related parties; (iv) we purchased patented technology from a certain related party; (v) we sold services (such as cloud hospital platform services, Internet medical services, health management services and smart healthcare services) to certain related parties; (vi) we obtained financial support from a certain related party; (vii) we obtained lease and property services from certain related parties; (viii) we disposed of equity interests and transferred such to certain related party; and (ix) we accepted a guarantee from a certain related party, among other things.

Our Directors believe that our transactions with related parties during the Track Record Period were conducted on normal commercial terms 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. In particular, the terms of our transactions with related parties during the Track Record Period were comparable to those offered by/to independent third parties, as the relevant prices and contract terms are comparable to those between our related parties and their other independent counterparties in similar transactions or the prices are based on reports issued by qualified independent third-party valuers. For the non-trade amounts due to related parties, our Directors confirm that all of such amounts will be settled prior to the [**REDACTED**].

For further details, see note 43 of the Accountant's Report in Appendix I to this document.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we did not have any outstanding off-balance sheet arrangements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT FINANCIAL RISKS

Our activities expose us to a variety of financial risks: market risk (including currency risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. Risk management is carried out by our senior management and approved by the executive Directors.

Market Risk

Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the Group entities' functional currency. The functional currency of our Company and the subsidiaries operating in the PRC is Renminbi. We manage our foreign exchange risk by performing regular reviews of our net foreign exchange exposures and try to minimize these exposures through natural hedges, wherever possible, and may enter into forward foreign exchange contracts, when necessary.

We operate mainly in the PRC with most of the transactions settled in Renminbi. Our management considers that our business is not exposed to any significant foreign exchange risk as we have no significant financial assets or liabilities denominated in currencies other than the respective functional currencies of our entities.

Cash flow and fair value interest rate risk

Our income and operating cash flows are substantially independent of changes in market interest rates and we have no significant interest-bearing assets except for those investments in wealth management products.

Credit Risk

Risk management

We are exposed to credit risk primarily in relation to its cash and cash equivalents placed with banks and financial institutions, as well as contract assets, trade receivables, other receivables and long-term trade receivables. 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.

To manage this risk, deposits are mainly placed with state-owned or reputable 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.

Impairment of financial assets

We have the following types of financial assets subject to expected credit loss model: (i) contract assets; (ii) trade receivables; (iii) other receivables; and (iv) long-term trade receivables;

While cash and cash equivalents and restricted deposits are also subject to the impairment requirements of HKFRS 9, the expected impairment loss was immaterial.

We apply the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, contract assets and long-term trade receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

For other financial assets at amortized cost, our management makes periodic assessments as well as individual assessments on the recoverability based on historical settlement records, experience and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Directors believe that there is no material credit risk inherent in our outstanding balance of other financial assets at amortized cost.

The expected credit losses for the long-term trade receivables which are used a lifetime expected loss allowance are based on historical experience of the Group and comparable companies for the long-term trade receivables.

Liquidity Risk

We aim to maintain sufficient cash to meet operating capital requirements.

The table below analyzes our non-derivative financial liabilities into relevant maturity grouping based on the remaining period at the end of each reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
			(RMB in thousands)		
As of December 31, 2020					
Borrowings	85,564	98,035	151,440	–	335,039
Trade payables	117,274	–	–	–	117,274
Other payables (excluding tax payables and salary and welfare payables)	120,038	300	–	–	120,338
Financial liability for redeemable rights	–	–	352,656	–	352,656
Lease liabilities	40,204	35,855	58,304	35,241	169,604
Total	**363,080**	**134,190**	**562,400**	**35,241**	**1,094,911**
As of December 31, 2021					
Borrowings	20,322	164,064	249,359	–	433,745
Trade payables	199,996	–	–	–	199,996
Other payables (excluding tax payables and salary and welfare payables)	129,526	–	–	–	129,526
Financial liability for redeemable rights	–	–	344,592	–	344,592
Lease liabilities	37,153	15,524	18,049	2,904	73,630
Total	**386,997**	**179,588**	**612,000**	**2,904**	**1,181,489**
As of December 31, 2022					
Borrowings	25,695	262,528	276,281	–	564,504
Trade payables	234,110	–	–	–	234,110
Long-term trade payables	–	1,900	–	–	1,900
Other payables (excluding tax payables and salary and welfare payables)	118,216	–	–	–	118,216
Financial liability for redeemable rights	–	376,420	–	–	376,420
Lease liabilities	28,930	14,704	22,343	2,445	68,422
Total	**406,951**	**655,552**	**298,624**	**2,445**	**1,363,572**

We initially recognize financial liability for redeemable rights as financial liabilities at the present value of the redemption amount. We classify the financial liability as subsequently measured at amortized cost. If the redeemable rights expire without delivery, the carrying amount of the financial liability is reclassified to equity. We classify financial liability for redeemable rights as non-current liabilities if we are not required to redeem for at least 12 months after the end of the Track Record Period.

DIVIDEND

During the Track Record Period, no dividend was declared or paid by the Company. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future. We currently do not have a formal dividend policy or fixed dividend payment ratio.

Under the Cayman Islands law, our Company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in our Company being unable to pay its debts as they fall due in the ordinary course of business. As advised by our Cayman Islands counsel, subject to the above, there is no restriction under the Cayman Islands law for our Company to declare and pay a dividend despite our accumulated losses. Our Board has complete discretion as to whether to distribute dividends, subject to certain requirements of Cayman Islands law. In addition, our Shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our Board. A decision to declare or to pay any dividends in the future, and the amount of any such dividends, will depend on a number of factors, including our results of operations, cash flows, financial condition, payments by our subsidiaries of cash dividends to us, business prospects, statutory, regulatory and contractual restrictions on our declaration and payment of dividends and other factors that our Board may consider important. No dividend will be declared or payable except out of our profits and reserves lawfully available for distribution. There can be no assurance that dividends of any amount will be declared or distributed in any year.

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands on May 12, 2011 and has not carried out any business since the date of its incorporation. As of December 31, 2022, our Company did not have any distributable reserves available for distribution to our shareholders.

UNAUDITED [REDACTED] ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited [**REDACTED**] statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the [**REDACTED**] on the net tangible assets of the Group attributable to the equity holders of the Company as of December 31, 2022 as if the [**REDACTED**] had taken place on December 31, 2022.

The unaudited [**REDACTED**] statement of adjusted net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the net tangible assets of the Group had the [**REDACTED**] been completed as at December 31, 2022 or at any future dates following the [**REDACTED**].

	Audited consolidated net tangible liabilities of the Group attributable to the equity holders of the Company as at December 31, 2022	Estimated impact related to the re-designation of financial instruments with redeemable rights and restricted shares granted to eligible employees upon the [REDACTED]	Estimated net [REDACTED] from the [REDACTED]	Unaudited [REDACTED] adjusted consolidated net tangible assets of the Group attributable to the equity holders of the Company as at December 31, 2022	Unaudited [REDACTED] adjusted consolidated net tangible assets per Share	
	(Note 1)	*(Note 2)*	*(Note 3)*		*(Note 4)*	*(Note 6)*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB*	*HK$*
Based on an [**REDACTED**] of HK$[**REDACTED**] per Share	[(455,653)]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Based on an [**REDACTED**] of HK$[**REDACTED**] per Share	[(455,653)]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]

---

(1) The audited consolidated net tangible liabilities of the Group attributable to the equity holders of the Company as at December 31, 2022 is extracted from the Accountant's Report set out in Appendix I to this document, which is based on the audited consolidated net liabilities of the Group attributable to the equity holders of the Company as at December 31, 2022 of approximately RMB[451,806,000], with adjustment for intangible assets as at December 31, 2022 of approximately RMB[3,847,000].

(2) Upon the [**REDACTED**], the financial instruments with redeemable rights and the restricted shares granted to eligible employees will be re-designated from liabilities to equity. Accordingly, for the purpose of the unaudited [**REDACTED**] financial information, the unaudited [**REDACTED**] adjusted net tangible assets attributable to the owners of the Company will be increased by RMB[**REDACTED**], being the aggregated carrying amounts of the financial instruments with redeemable rights and the restricted shares granted to eligible employees as of December 31, 2022.

(3) The estimated net [**REDACTED**] from the [**REDACTED**] are based on the indicative [**REDACTED**] HK$[**REDACTED**] and HK$[**REDACTED**] per share, being the low and high end of the indicative [**REDACTED**], respectively, after deduction of the [**REDACTED**] fees and other related expenses (excluding [**REDACTED**] expenses of approximately RMB[**REDACTED**] which have been accounted for in the consolidated statements of comprehensive income of the Group prior to December 31, 2022) paid/payable by the Company, and takes no account of any Shares which may be allotted and issued pursuant to the exercise of the [**REDACTED**], any options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by the Company pursuant to the general mandates given to the Directors for issue and allotment of Shares as described in the section headed "Share Capital" in this document.

(4) The unaudited [**REDACTED**] net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis that [**REDACTED**] Shares were in issue, assuming that the [**REDACTED**] [and the Share Subdivision] have been completed on December 31, 2022 but takes no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme and any Shares which may be issued or repurchased by the Company pursuant to the general mandates given to the Directors for issue and allotment of Shares as described in the section headed "Share Capital" in this document.

(5) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to December 31, 2022.

(6) For the purpose of this unaudited [**REDACTED**] adjusted consolidated net tangible assets, the amounts stated in Renminbi are converted into Hong Kong dollars at a rate of RMB1.00 to HK$[1.1261]. No representation is made that RMB amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

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

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed 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 of our latest audited financial statements) and there has been no event since December 31, 2022 which would materially affect the information shown in the Accountant's Report set out in Appendix I to this document.

[REDACTED] EXPENSES

[**REDACTED**] expenses represent professional fees, [**REDACTED**] and other fees incurred in connection with the [**REDACTED**]. We estimate that our [**REDACTED**] expenses will be approximately RMB[**REDACTED**] (including (i) [**REDACTED**] of approximately RMB[**REDACTED**], and (ii) non-[**REDACTED**] related expenses of approximately RMB[**REDACTED**], which consist of financial and legal advisor fees and expenses of approximately RMB[**REDACTED**] and other fees and expenses of approximately RMB[**REDACTED**]), (assuming an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**] (being the mid-point of the indicative [**REDACTED**]) and no exercise of the [**REDACTED**], of which (i) approximately RMB[**REDACTED**] is directly attributable to the issue of our [**REDACTED**] and will be deducted from equity, (ii) approximately RMB[**REDACTED**] has been expensed in our consolidated statements of profit or loss in 2022, and (iii) approximately RMB[**REDACTED**] is expected to be expensed in our consolidated statements of profit or loss after December 31, 2022. Our [**REDACTED**] expenses account for [**REDACTED**]% of the gross [**REDACTED**] (assuming an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**] (being the mid-point of the indicative [**REDACTED**]) and no exercise of the [**REDACTED**]).