2023
Annual Report

Yunkang Group Limited
云康集团有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 2325

CONTENTS

Definitions and Glossary of Technical Terms

"2021 Negative List"	Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Edition) (外商投資准入特別管理措施(負面清單) (2021年版)) jointly issued by the National Development and Reform Commission and the Ministry of Commerce
"2022 RSU Scheme"	the 2022 restricted share unit scheme adopted by the Company on November 23, 2022
"AGM"	the annual general meeting of the Company to be held at 10:00 a.m. on Friday, June 28, 2024 at No. 9 Yayingshi Road, Science City, Huangpu District, Guangzhou, PRC or any adjournment thereof
"AI"	artificial intelligence
"Articles of Association"	the amended and restated articles of association of our Company adopted on April 20, 2022 and effective on May 18, 2022
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Audit Committee"	the audit committee of the Board
"Board"	the board of Directors of the Company
"Business Day"	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"CAP"	College of American Pathologists
"CDC"	Chinese Center for Disease Control and Prevention (中國疾病預防控制中心)
"Chengdu Daan"	Chengdu Gaoxin Daan Medical Laboratory Co., Ltd. (成都高新達安醫學檢驗有限公司), a limited liability company established in the PRC on June 10, 2009 and a wholly-owned subsidiary of Yunkang Industry
"China" or "PRC"	the People's Republic of China and, except where the context requires, references in this annual report to the PRC or China exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"CLSI"	Clinical and Laboratory Standards Institute
"Companies Act"	the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time

Definitions and Glossary of Technical Terms

"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Company" or "Yunkang"	Yunkang Group Limited (云康集团有限公司), a company incorporated under the laws of the Cayman Islands with limited liability on July 20, 2018
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"connected transaction(s)"	has the meaning ascribed thereto under the Listing Rules
"Consolidated Affiliated Entities"	the entities we control through the Contractual Arrangements, being Yunkang Industry, subsidiaries of Yunkang Industry and Guangzhou Clinic
"Contractual Arrangements"	the series of contractual arrangements entered into by, among others, WFOE, the Registered Shareholders and Yunkang Industry
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules, unless the context requires otherwise, refers to Mr. Zhang Yong, YK Development, Daan International, Guangzhou Daan Gene Technology, Da An Gene, Huizekx Limited, Mouduans Limited, Tongfuzc Limited, WJJR Investment Limited, Jin Jun Ying Limited and Source Capital RW Limited
"Corporate Governance Code"	the Corporate Governance Code as set out in Appendix C1 to the Listing Rules
"Da An Gene"	Daan Gene Co., Ltd. (廣州達安基因股份有限公司), a company limited by shares established in the PRC whose shares are listed on the SME Board of the Shenzhen Stock Exchange (Stock Code: 002030.sz) and a Registered Shareholder
"Da An Gene Group"	Da An Gene and its subsidiaries
"Daan International"	Daan International Holdings Limited (達安國際集團有限公司), a company incorporated in Hong Kong with limited liability on September 2, 2008, a subsidiary of Da An Gene and one of our Controlling Shareholders
"Director(s)"	director(s) of the Company
"DRG/DIP"	diagnosis-related groups/diagnosis-intervention packet
"ESG"	environmental, social and governance
"FVOCI"	fair value through comprehensive income
"FVTPL"	fair value through profit or loss

"GDP"	gross domestic product
"Gaoxin Yangguang"	Tianjin Gaoxin Yangguang Investment Co., Ltd. (天津高新陽光投資有限公司), previously known as Beijing Gaoxin Yangguang Investment Co., Ltd. (北京高新陽光投資有限公司), a limited liability company established in the PRC on December 14, 2007 and wholly-owned by Mr. Zhang Yong, a Registered Shareholder
"Global Offering"	the offer for subscription of Shares as described in the Prospectus
"Group"	our Company, all of our subsidiaries and the Consolidated Affiliated Entities
"Guangzhou Anjianxin"	Guangzhou Anjianxin Medical and Health Industry Equity Investment Fund (Limited Partnership) (廣州安健信醫療健康產業股權投資基金(有限合夥)), a limited partnership established in the PRC on December 2, 2014 and a Registered Shareholder
"Guangzhou Clinic"	Guangzhou Yunkang Clinic Co., Ltd. (廣州雲康門診有限公司), a limited liability company established in the PRC on January 29, 2019 ultimately controlled by WFOE and Yunkang Industry
"Guangzhou Daan"	Guangzhou Daan Clinical Laboratory Center Co. Ltd. (廣州達安臨床檢驗中心有限公司), a limited liability company established in the PRC on February 28, 2006 held by Yunkang Industry and CDB Development Fund as to 95.28% and 4.72%, respectively, as at the Latest Practicable Date
"Guangzhou Daan Gene Technology"	Guangzhou Daan Gene Technology Co., Ltd. (廣州市達安基因科技有限公司), a limited liability company established in the PRC on May 6, 2009 and a wholly-owned subsidiary of Da An Gene
"Guangzhou Huigang"	Guangzhou Huigang Investment Partnership (Limited Partnership) (廣州匯港投資合夥企業(有限合夥)), a limited partnership established in the PRC on May 14, 2015 and a Registered Shareholder, which is wholly-owned as to 50% and 50% by Foshan City Guangchen Enterprise Management Center (佛山市廣宸企業管理中心) and Foshan City Gangshen Enterprise Management Center (佛山市港深企業管理中心) respectively as at the Latest Practicable Date
"Guangzhou Yunkang"	Guangzhou Yunkang Biological Technology Co., Ltd. (廣州雲康生物科技有限公司), a limited liability company established in the PRC on May 5, 2014 and a wholly-owned subsidiary of our Company
"Heyuan Rongwei"	Beijing Heyuan Rongwei Equity Investment Center (Limited Partnership) (北京合源融微股權投資中心(有限合夥)), a limited partnership established in the PRC on April 20, 2015 and a Registered Shareholder
"HK$", "HKD" or "Hong Kong Dollars"	Hong Kong dollars respectively, the lawful currency of Hong Kong

"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"ICL(s)"	independent clinical laboratory(ies), perform(s) tests or procedures to help diagnose and/or treat medical conditions
"IVD"	in vitro diagnostics
"Latest Practicable Date"	April 22, 2024, being the latest practicable date for the purpose of ascertaining certain information contained in this annual report prior to its publication
"Listing Date"	May 18, 2022, the date on which dealings in our Shares first commenced on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM. For avoidance of doubt, the Main Board excludes the GEM
"Mazars"	Mazars CPA Limited
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules
"Mouduanshan"	Zhuhai Hengqin Mouduanshan Enterprise Management Center (Limited Partnership) ((珠海橫琴謀斷山企業管理中心(有限合夥)), previously known as Zhuhai Hengqin Mouduanshan Investment Center (Limited Partnership) ((珠海橫琴謀斷山投資中心(有限合夥)), a limited partnership established in the PRC on June 5, 2015 and a Registered Shareholder
"NGS"	next-generation sequencing
"Nomination Committee"	the nomination committee of the Board
"Non-competition Undertaking"	the non-competition undertaking dated September 3, 2021 entered into between the Company and Da An Gene
"PCR"	polymerase chain reaction
"Prospectus"	the prospectus of the Company dated May 5, 2022
"Registered Shareholder(s)"	the registered shareholder(s) of Yunkang Industry as defined in the Prospectus
"Remuneration Committee"	the remuneration committee of the Board

“Renminbi” or “RMB”	Renminbi yuan, the lawful currency of the PRC
“Reporting Period”	the year ended December 31, 2023
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Shanghai Daan”	Shanghai Daan Medical Laboratory Co., Ltd. (上海達安醫學檢驗所有限公司), a limited liability company established in the PRC on July 28, 2006 and a wholly-owned subsidiary of our Group
“Share(s)”	ordinary share(s) in the share capital of the Company with nominal value of US$0.000002 each
“Shareholder(s)”	shareholder(s) of the Company
“SPDB Guangzhou Wuyang Branch”	Guangzhou Wuyang Branch of Shanghai Pudong Development Bank Co., Ltd.
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“tNGS”	Targeted Next-generation Sequencing
“Tongfu Zhongchuang”	Shenzhen Tongfu Zhongchuang Investment Management Co., Ltd. (深圳同福中創投資管理有限公司), a limited liability company established in the PRC on May 18, 2015 and a Registered Shareholder
“USD” or “US$”	United States dollars, the lawful currency of the United States
“we”, “us” or “our”	the Company or the Group, as the context requires
“WFOE” or “Yunkang Technology”	Guangzhou Yunkang Health Technology Co., Ltd. (廣州雲康健康科技有限公司), a limited liability company established in the PRC on July 10, 2019 and a wholly-owned subsidiary of our Company
“YK Development”	YK Development Limited, a limited liability company duly incorporated in the British Virgin Islands on July 12, 2018 and one of our Company’s Controlling Shareholders
“Yujiang Anjin”	Yujiang Anjin Venture Capital Center (Limited Partnership) (余江安進創業投資中心(有限合夥)), currently known as Guangzhou Jinan Investment Center (Limited Partnership (廣州進安投資中心(有限合夥)), a limited partnership established in the PRC on September 15, 2014 and a Registered Shareholder

"Yunkang Industry"	Yunkang Health Industry Investment Co., Ltd. (雲康健康產業投資股份有限公司), previously known as Gaoxin Da An Health Industry Investment Co., Ltd. (高新達安健康產業投資有限公司), a limited liability company established in the PRC on May 28, 2008 controlled by us through the Contractual Arrangements
"Yunkang Lingnan"	Yunkang Lingnan (Guangzhou) Medical Health Technology Development Co., Ltd. (蕓康嶺楠(廣州)醫療健康科技發展有限公司), a limited liability company established in the PRC on September 19, 2019 and a wholly-owned subsidiary of Yunkang Industry
"%"	per cent

Corporate Information

BOARD OF DIRECTORS

Executive Director:

Mr. Zhang Yong *(chairman of the Board and chief executive officer)*

Non-Executive Directors:

Ms. Huang Luo
Dr. Guo Yunzhao *(resigned on August 30, 2023)*
Dr. Wang Pinghui *(appointed on August 30, 2023)*
Dr. Wang Ruihua

Independent Non-Executive Directors:

Mr. Yu Shiyou
Mr. Yang Hongwei *(resigned on August 30, 2023)*
Mr. Lan Fenghui *(appointed on August 30, 2023)*
Mr. Xie Shaohua

AUDIT COMMITTEE

Mr. Xie Shaohua *(Chairman)*
Dr. Guo Yunzhao *(resigned on August 30, 2023)*
Dr. Wang Ruihua *(appointed on August 30, 2023)*
Mr. Yu Shiyou

REMUNERATION COMMITTEE

Mr. Yu Shiyou *(Chairman)*
Mr. Zhang Yong
Mr. Xie Shaohua

NOMINATION COMMITTEE

Mr. Zhang Yong *(Chairman)*
Mr. Yu Shiyou
Mr. Xie Shaohua

JOINT COMPANY SECRETARIES

Mr. Lin Yingjia
Ms. Chan Lok Yee

AUTHORIZED REPRESENTATIVES

Mr. Zhang Yong
Ms. Chan Lok Yee

REGISTERED OFFICE

P.O. Box 31119 Grand Pavilion
Hibiscus Way
802 West Bay Road
Grand Cayman KY1-1205
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 9 Yayingshi Road
Science City
Huangpu District
Guangzhou, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1901, 19/F, Lee Garden One
33 Hysan Avenue, Causeway Bay
Hong Kong

HONG KONG LEGAL ADVISER

Zhong Lun Law Firm LLP
4/F, Jardine House
1 Connaught Place
Central
Hong Kong

Corporate Information

AUDITOR

Mazars CPA Limited
42/F, Central Plaza
18 Harbour Road
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO Box 1093
Boundary Hall
Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

STOCK CODE

2325

COMPANY WEBSITE

www.yunkanghealth.com

Financial Highlights

	For the year ended December 31,		
	2023	2022	Change
	RMB'000	RMB'000	
Revenue	**891,500**	3,756,201	(76.3)%
Recognized at a point in time:			
– Diagnostic outsourcing services	**413,615**	1,944,173	(78.7)%
– Diagnostic testing services for medical institution alliances	**430,874**	1,680,559	(74.4)%
– Diagnostic testing services for non-medical institutions	**47,011**	131,469	(64.2)%
Cost of revenue	**(565,714)**	(2,448,471)	(76.9)%
Gross profit	**325,786**	1,307,730	(75.1)%
(Loss)/profit before income tax	**(86,811)**	443,424	(119.6)%
(Loss)/profit for the year	**(101,889)**	373,949	(127.2)%
(Loss)/profit attributable to owners of the Company	**(102,259)**	377,309	(127.1)%

	For the year ended December 31,		
	2023	2022	Change
	RMB	RMB	
(Loss)/earnings per share for profit attributable to owners of the Company			
Basic	**(0.17)**	0.66	(125.8)%
Diluted	**(0.17)**	0.66	(125.8)%

Financial Highlights

During the Reporting Period, the Group recorded a revenue of RMB891.5 million, representing a decrease of 76.3% compared to the same period in 2022. The decrease was primarily attributable to the impact of weaker demand for phased testing and screening services nationwide, which resulted in a decrease in the revenue of the Group as compared to last year. During the Reporting Period, the routine medical services in medical institutions nationwide resumed, with patients' demand for medical services gradually satisfied and the number of patients receiving medical treatment in medical and health institutions nationwide mounting up year-on-year. Against this backdrop, the Group constantly placed an emphasis on the development strategy of "in-depth services and lean operations", focusing on the expansion of routine testing business by deepening the Group's service system and building an efficient operating system, whereby the Group achieved high-quality growth in its routine testing business without taking into account the impact of the decline in demand for phased testing.

During the Reporting Period, revenue generated from diagnostic outsourcing services amounted to RMB413.6 million, representing a decrease of 78.7% as compared to 2022, primarily due to the decline in demand for phased testing and screening services nationwide. However, without taking into such impact, the Group's routine testing business had achieved a healthy and steady growth as compared to 2022.

During the Reporting Period, revenue generated from diagnostic testing services for medical institution alliances amounted to RMB430.9 million, representing a decrease of 74.4% as compared to 2022, primarily due to the decline in demand for phased testing and screening services nationwide. However, the Group was active in leveraging its business advantages in providing diagnostic testing services to medical institution alliances, promoted the construction of on-site diagnostic centers including pathology, infectious diseases, genetic diseases, routine testing, etc., while further enriching appropriate testing product items. During the Reporting Period, diagnostic testing services provided to medical institution alliances recorded an increase in revenue as a percentage of total revenue, making it the largest business segment of the Group in terms of revenue, and achieved a healthy and steady growth without considering the impact of the decline in demand for phased testing.

Diagnostic testing services for non-medical institutions are mainly provided through our outpatient clinics, serving individual customers from the general public. During the Reporting Period, revenue generated from diagnostic testing services for non-medical institutions amounted to RMB47.0 million, representing a decrease of 64.2% compared to 2022. The decrease was primarily due to the decline in demand for phased testing and screening services nationwide.

During the Reporting Period, the Group recorded a net loss of RMB101.9 million, as compared to a net profit of RMB373.9 million for the year ended December 31, 2022.

The turnaround from net profit to net loss was primarily attributable to the following reasons:

(i) during the Reporting Period, there was a significant decrease in overall revenue of the Group as compared to last year as a result of a decline in the demand for phased testing and screening services nationwide. However, without taking into account such impact, the Group's routine testing business had achieved a healthy and steady growth during the Reporting Period;

(ii) during the Reporting Period, the Group further improved its operational and management capabilities and strengthened its cash flow management, resulting in a significant improvement in net cash generated from operating activities as compared to last year. However, due to the longer collection cycle of certain trade receivables, the Group recorded a relatively large amount of impairment provisions during the Reporting Period; and

(iii) during the Reporting Period, as the demand for phased testing and screening services decreased, the Group effectively implemented a series of measures based on local conditions in order to respond in a timely manner, and there was a decrease in the Group's profitability in the short term as a result of the one-off costs incurred from the elimination of redundancies.

Chairman's Statement

Dear shareholders, partners, employees, and all our friends who care for and support the development of the Group,

First of all, I would like to extend my sincere gratitude to you for your continuous support and trust in the Group over the past year. The year 2023 was the first year after China's prevention and control against the COVID-19 pandemic has undergone transition, and during the year, China was not only facing highly complex international environment, but also struggling with great difficulties and challenges for its economic recovery and development. For the medical service sector, it takes time for business demands to resume. The massive investment expenses by the sector during the pandemic generated a great deal of sunk cost and deferred cost, and the sector is generally facing challenges from payment collection and price competition. With these new challenges and new problems lingering, market players must have sufficient strategic wisdom and willpower to conquer all the difficulties and obstacles for a promising future and stable development.

As a comprehensive and professional medical operation service provider in China, Yunkang has been committed to promoting development with innovation and overcoming challenges with resilience. In 2023, Yunkang continued to deeply implement its overall business philosophy of "in-depth services and lean operations", based on its prediction on the macroenvironment and its insights into the microenvironment. On one hand, we constantly deepened our understanding of and response to the demands of medical institution customers by exploring new ways and new modes of serving customers in the post-pandemic transition period for the sector in order to consolidate the Company's development foundation and professional brand with in-depth services; on the other hand, we constantly improved our operational and management mechanism and procedure, proactively took measures to efficiently optimize the production capacity during the pandemic and to eliminate redundancy, leveraged on the fast-growing digital technologies and remained focused on lean operations to improve customer experience and satisfaction with better and more efficient services.

In 2023, when multiple difficulties and challenges were interwound, Yunkang relied on its customer-oriented, innovative and coordinated development system to keep exploring new modes and developing new growth drivers, demonstrating a good development trend. Our three major business lines, namely diagnostic testing services for medical institution alliances ("joint service for medical institution alliances"), diagnostic outsourcing services and diagnostic testing services for non-medical institutions, all presented satisfactory performance. In particular, the segment of joint service for medical institution alliances demonstrated a very strong growth momentum and its proportion of the total revenue exceeded that of the diagnostic outsourcing services for the first time, making it become the biggest source of the Group's revenue. Such achievements are attributable to our consistent focus on technological innovation and mode innovation for business development under the guidance of our business philosophy of "in-depth services and lean operations".

In terms of promoting clinical and medical technology innovation, Yunkang has consistently focused on clinical service demands, through relying on medical schools and medical institutions that study on clinical problems as the leading force, integrated main resources in various development chains to help create a suitable environment for the sustainable development of clinical medicine. We have developed diversified and targeted solutions and services for clinical application scenarios in different regions and different kinds of medical institutions. Through the construction of tNGS joint innovation platform for diagnostic testing, microRNA joint innovation platform, allergy gene joint innovation platform and other projects, Yunkang helped the respiratory, pediatrics, obstetrics and gynecology, oncology, hematology and other clinical departments to jointly develop, verify and market cutting-edge diagnostic products that can best meet the needs of current clinical segments. The Group's Precision Medicine Centers fully utilize cutting-edge biotechnologies, as well as advanced digital technologies such as AI, cloud computing and big data, and focus on areas of clinical diseases including infectious diseases, genetic diseases and oncology, providing diversified, personalized and precise testing solutions and promoting the high-quality development of clinical specialist diagnosis and treatment services.

In terms of innovation in the medical technology industry, leveraging on its unique industrial model innovation, Yunkang joins hands with various partners, focuses on policy guidance, clinical development, technological breakthroughs, industrial services and application promotion, and is committed to establishing a closed-loop chain for the collaborative development of the medical industry, promoting independence through high-level medical technology, and supporting the high-quality medical and healthcare development. In the past year, we explored a new cooperation model for joint innovation and cooperation with medical schools, local governments and medical institutions. Through cooperation with universities, affiliated hospitals and local governments and other institutions, we contributed innovative cooperation methods for the development of the healthcare industry with Yunkang's characteristics to the national and regional governments, which also laid a sound foundation for promoting in-depth school-enterprise cooperation and promoting regional market operations.

The high-quality development of the healthcare service system is the top priority for achieving the goal of building a healthy China by 2035. Yunkang always adheres to the development strategy of putting quality as a priority, using it as a starting point to work together with international professional institutions, domestic medical institutions, and local governments to build and promote a high-standard medical laboratory quality management system. During the year, we continued to work with CLSI and completed the preparation of the new version of the Guidelines and Consensus on the Application of Quality and Competence Standards for Medical Laboratories, which promoted the continuous development of the industry standardization. The laboratories of the Group have not only obtained the accreditation of ISO15189, CAP, etc., but also obtained relevant qualifications certification through assessment by various authorities at all levels for many years, fully demonstrating the rigorous approach and excellent results of Yunkang in laboratory quality management.

It is the responsibility of enterprises to promote the transformation to green development and help promote the construction of a beautiful China. The Group proactively enhances its ESG efforts. We always regard sustainable development as an important goal of corporate development, and are committed to promoting corporate governance, environmental protection, labor practices, service quality and community response, proactively responding to the regulatory requirements concerning ESG and climate change management system and enhancing sustainability, in order to continuously improve our overall competitiveness and social influence. The 2023 ESG Report of Yunkang records in detail our practices and achievements in environmental protection, corporate governance and community charity, reflecting the image of the Group as a responsible enterprise.

In the future, under our business philosophy of "in-depth services and lean operations", the Group will continue to adhere to the principles of innovation and service orientation and actively promote the development of new quality productivity in the medical and health field by leveraging on our strong technology research and development capabilities and profound industry knowledge, thereby empowering the construction of medical institution alliances and the improvement of public healthcare system. We will proactively enhance in-depth customer services, foster lean operation management and digital empowerment, follow national policies directions, and seize the opportunities in the medical testing service market, in order to provide the public with better and more efficient, more accurate and more competitive diagnostic testing products and services, thereby contributing to the realization of the blueprint for Healthy China 2030.

Finally, let us work together and embrace the challenges and opportunities of the coming year and build a more brilliant future in the field of professional healthcare services. We would like to express our gratitude to our shareholders and partners for your trust and support once again, and let us all witness the progress of the Group in 2024 and to make headway with confidence to a new year full of tremendous potentials!

Yunkang Group Limited
Zhang Yong
Chairman, executive Director and chief executive officer

Management Discussion and Analysis

BUSINESS OVERVIEW

We will focus on the discussion and analysis of the Company's management decisions and the impact of industry trends on our business.

1. Industry Overview

1.1 International and domestic macro situation

Global economic slowdown and divergence

In 2023, the downward pressure exerted on global economy, the complex and volatile geopolitics relationship, as well as the reshaping of international order have led countries to enhance diversified cooperation and autonomous strategic planning.

Shift of China's economic growth impetus

In 2023, China played the role of a stabilizer in the global economy, and at the same time, it also faced and responded to challenges brought about by the international environment. China's macro environment focused on the exploration of endogenous growth capability and structural optimization. Against the backdrop of the slowdown in global economic growth and diminishing external demand, the Chinese government has adopted a series of measures to stimulate domestic demand and enhance the importance of the domestic circulation. The macroeconomic policies continued to adhere to the principle of seeking progress while maintaining stability, with an emphasis on high-quality development. While carrying out reforms on the supply structure, efforts were made to address structural issues, such as deleveraging, reducing costs and improving shortcomings while supporting the development of emerging industries and the digital economy.

1.2 Diagnostic testing service industry

Benefiting from multiple factors such as policy support, technology advancement and growth in market demand, the size of China's medical diagnostic testing service market will experience a continuous expansion, with increasing influence in the industry.

In terms of the national policy framework, the nation continuously increased its emphasis on and support for the medical and healthcare industry, which provided a sound policy environment for the development of the medical diagnostic testing service market. At the same time, with the advancement of medical reform and the gradual improvement of the hierarchical diagnosis and treatment system, the demand for diagnostic testing services from primary medical institutions continued to grow, which further promoted the development of the market. Under the Guiding Opinions on Comprehensively Promoting the Establishment of Compact County Medical and Healthcare Alliances (《關於全面推進緊密型縣域醫療衛生共同體建設的指導意見》) issued on December 29, 2023, the general goals proposed are to fully implement the establishment of compact county medical and healthcare alliances in provinces, and significant progress is expected to be made by 2025, with full coverage expected to be achieved by 2027.

In terms of technology advancement, the extensive application of new-generation information technology and biotechnology in the field of healthcare has provided more opportunities for innovation for diagnostic testing services in the medical diagnostic testing service market. For example, precision medicine and AI-assisted diagnosis which utilize big data and AI technologies not only improve the accuracy and efficiency of diagnosis, but also reduce medical costs, which injects new vitality into the development of the medical diagnostic testing service market.

Driven by multiple favorable factors, the market will continue to maintain a stable and rapid development trend:

Policy support and industry norms

The government's focus on medical and healthcare services and a series of policies that have been introduced to encourage privatization of medical services and to promote the development of the healthcare industry have provided a sound policy environment for medical testing services. For example, the reform on medical insurance system and the implementation of hierarchical diagnosis and treatment system have facilitated the standardization and expansion of the medical testing service market. Anti-corruption practice in healthcare will promote the standardization of the industry. The implementation of the laboratory developed tests (LDT) pilot program has entered a substantive stage of progress, further creating opportunities for cooperation between hospitals and enterprises. In promoting the transformation of diagnostic enterprises engaged in provision of diagnostic services, improving lean operations, reducing costs and increasing efficiency, industrial synergy has begun to develop, and medical institutions, schools, manufacturers of in vitro diagnostic devices (IVD), companies of ICLs, pharmaceutical companies, Internet companies, etc. have begun to form alliances to seek breakthroughs in technology, products and services.

Uneven distribution of medical resources and gap in demand

Due to the uneven allocation of medical resources among regions and the need to improve the capabilities of primary medical institutions, medical diagnostic testing services, especially third-party medical diagnostic services, are an important part of supplementing and improving the medical service system, satisfying the demand for high-standard and professional testing services in the vast grassroots regions and non-public medical institutions.

Unit medical cost control and utilization efficiency optimization of medical resources

Under the background of unit medical cost control and utilization efficiency optimization of medical resources, medical institutions prefer to conduct more in-depth cooperation with external institutions, such as the joint construction of on-site laboratories, to reduce operating costs and improve operational efficiency, which provides ample space for the development of the medical diagnostic testing service market.

Population aging and the demand for chronic disease prevention and control

According to the National Bureau of Statistics, China's population aged 65 years or above accounted for approximately 15.4% of the national population in 2023, which means that China may have become a severely ageing society. As the problem of population ageing has aggravated and chronic diseases have become more prevalent, and people are paying more attention to health management, it has led to a surge in demand for high-end testing services such as early disease screening and personalized treatment monitoring. As medical diagnostic testing services are one of the important means for the prevention and control of chronic diseases, market demand will continue to grow.

Technology advancement and innovative application

Technology innovation is the core driving force for the development of the medical diagnostic testing service market. The rapid development of biotechnologies has led to an expansion of the bioeconomy into many sectors, making the development and application of biotechnologies more revolutionary. With the development of new general technologies such as ultramicroscopic morphology, PCR, fluorescence in situ hybridization, flow cytometry, NGS, digital PCR, remote AI pathology and mass spectrometry, and the deepening application of AI technology, the technologies in the industry will be improved at a faster pace in the future. The development of medical big data platform is still growing, it has brought momentum to the medical, medical technology and pharmaceutical innovations. The further application of AI in the testing and diagnostic fields has improved work efficiency and increased accuracy and stability of testing and diagnostic results. Biotechnology innovation has greatly improved the technical service capabilities of medical testing institutions, attracting more medical institutions to choose to cooperate with external institutions to provide testing services for patients.

Further improvement of China's ICL market penetration rate

The development of China's ICL industry is relatively recent, and the size of the ICL market is still in its infancy as compared with other developed countries. In 2023, the penetration rate of ICLs in China was still in the single digits, which was much lower than 60% in Japan, 44% in Germany and 35% in the United States. There is still ample room for further development and continuous growth.

Continuous expansion of application in new areas

Despite the relatively recent development of China's ICL industry, it has continued to maintain a rapid growth rate in recent years. According to Frost & Sullivan, the size of China's third-party medical diagnosis market is expected to exceed RMB60 billion by 2028 from RMB40.5 billion in 2022, reflecting strong overall market demand in the medium to long term.

With the continuous expansion of application in new areas, third-party medical testing institutions can flexibly provide the testing items demanded by hospitals and patients, allowing the development of precision medicine to become more in-depth, precise, special and innovative. With the application of the "Healthy China 2030" Planning Outline in public health services, smart medical testing is full of new possibilities.

2. Business Review

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

During the Reporting Period, the Group's revenue amounted to RMB891.5 million, representing a year-on-year decrease of 76.3%, which was mainly due to the decrease in revenue of the Group as compared with last year as a result of the decline in demand for phased testing and screening services nationwide. However, without taking into account such impact, the Group's routine testing business achieved a healthy and steady growth during the Reporting Period. The Group further enhanced its operational and management capabilities and strengthened its cash flow management, resulting in the overall gross profit margin remaining stable at 36.5% and a significant improvement in net cash generated from operating activities as compared to last year.

Building on the diagnostic expertise and the established medical service network, the Group's service portfolio mainly includes the following:

- *Diagnostic testing services for medical institution alliances*

  We offer diagnostic testing services for medical institution alliances. The first key step of these services is to assist in the establishment of an on-site diagnostic center at the leading hospitals. Through the on-site diagnostic centers, medical institutions have the opportunity to build up their diagnostic capacities in a more efficient way as the test samples collected at the medical institutions do not need to be delivered to ICLs for testing. Instead, the medical institutions can complete the testing at these on-site diagnostic centers. Through our services, member hospitals can offer standardized diagnostic testing services to patients, and, with the diagnostic testing reports we issue, better understand the symptoms and conditions of the patients and direct patients to the most suitable medical institution within the medical institution alliances that has the most experiences in handling similar cases.

  The Group usually assists leading hospitals in relevant regions to establish on-site diagnostic centers through joint collaboration in main disease areas such as infectious diseases, reproductive health, genetic diseases, and pathology and provides leading hospitals with comprehensive and high-quality solutions including testing technologies, professional technicians, core technologies and equipment, standardized quality control system, medical cold chain logistics and professional marketing, so as to promote the improvement on the overall technical level and operational efficiency of regional medical institution alliances.

- *Diagnostic outsourcing services*

  The Group offers diagnostic outsourcing services to hospitals, other medical institutions and public health institutions. As hospitals need to conduct diagnostic testing on patients' test samples, which, considering the extensive test types of patients' test samples, it can be time- and cost-consuming to independently conduct all diagnostic testing items. Hospitals, other medical institutions and public institutions may not have the required capabilities to conduct certain high-end or cutting-edge diagnostic testing items by themselves. These institutions generally prefer to conduct certain diagnostic testing items on their own based on their grade, size and other attributes, and consider outsourcing certain diagnostic testing items to qualified testing service institutions taking into account factors such as quality, cost and efficiency.

- *Diagnostic testing services for non-medical institutions*

  The Group offers diagnostic testing services for non-medical institutions which mainly include personalized diagnostic testing, medical report consultation services and hospital referral services. Through these services, the Group provides basic consultation services based on the diagnostic testing reports it issued and refers those patients to suitable hospitals for follow-up treatment that it considers appropriate. The Group primarily provides on-site health management services where it conducts basic diagnostic testing and health checkup for individual customers at its outpatient clinic or locations requested by its customers.

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

2.1 Continuous expansion in business network

During the Reporting Period, the Group continuously expanded its business network across the country, increasing the service accessibility. At the same time, the Group increased R&D investment in new technologies and new products, and launched many competitive testing services. As a result, we are able to better meet the needs of customers and expand market share. In terms of business expansion, we continued our expansion into secondary and tertiary hospitals. As at December 31, 2023, the Group had 12 independent medical laboratories and 416 jointly constructed on-site diagnostic centers, providing over 3,000 testing items and over 10 million tests per year; and the Group had formed a customer service network covering over 200 cities in 31 provinces and autonomous regions across China.

2.2 Facilitating the construction of medical institution alliances

In recent years, China has successively launched a series of regulations to facilitate the construction of medical institution alliances and some favorable policies for medical services, which will vigorously facilitate the reform of the healthcare system, promote the construction of medical institution alliances, allow access of high-quality medical resources to primary medical facilities, so as to make it easier for the public to receive medical treatment.

The Group has been striving to be the pioneer and leader for the construction of medical institution alliances since its establishment. Since the launch of the new medical reform, we have actively leveraged our advantages in specialization, standardization and digital intelligence to empower the medical institutions at all levels within the medical institution alliances to enhance their medical diagnostic and collaborative service capabilities and form a distinctive model for the operation and innovation of medical institution alliances. By assisting regional leading hospitals in building their testing and pathology laboratories, and establishing a regionally collaborative service system of medical institution alliances, the Group helped all members of the medical institution alliances to expand available testing items and testing capabilities and ensure testing quality.

The Group has achieved remarkable results in supporting the construction and development of medical institution alliances. As at the end of the Reporting Period, the Group had successfully provided professional diagnostic services for more than 1,500 medical institutions in collaboration with medical institution alliances under 416 jointly constructed on-site diagnostic centers across the country, and had created a number of benchmark projects for the joint initiative, so as to facilitate the rapid development of medial institution alliances.

For example, the Longmen County General Hospital – County-level Pathology Diagnostic Center, which was established under the assistance of the Group, was officially inaugurated in Longmen County, Huizhou, providing medical institutions at all levels in the region with high-quality pathological diagnostic and treatment services. Furthermore, the Group has collaborated with the Institute of Clinical Pathology, West China Hospital, Sichuan University, in building the West China Pathology Alliance (中國西部病理聯盟), and as the technical organizer and demonstration center of the alliance, the Group has provided in-depth services and technical capabilities for four consecutive years and played an important role.

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

2.3 Technology innovation and R&D investment

In the field of medical testing, technology innovation and R&D investment are key factors for sustainable growth. We are fully aware of this and are committed to continuously improving our technological standards and innovation capabilities. By strengthening cooperation with research institutions and universities, we actively carry out the research and development of new technologies, and jointly promote the research and development of cutting-edge testing technologies and their marketization. In 2023, the Group continued to maintain long-term and stable cooperative relationship with the University of Chicago, the University of Toronto, Fudan University, Sun Yat-sen University, the Southern Medical University, Southern University of Science and Technology, Nanchang University and other domestic and overseas universities, and provide them with broad platform and opportunities in joint cultivation, training, internship, scientific research and other areas. In July 2023, the Group signed a strategic agreement on university-enterprise cooperation with Nanchang University. Both parties will leverage on the advantages of resource integration to carry out long-term industry-college-institute cooperation, focusing on medical services, talent cultivation, commercialization of scientific research results, etc., so as to create an innovative model of cooperation and collaborative education between universities and enterprises, in order to assist Nanchang University in pursuing its goal of a world class university with world class disciplines, and seek mutually beneficial and win-win high-quality development.

The Group has established professional capabilities in multiple disease areas, including infectious diseases, reproductive health, genetic diseases, solid tumors, blood diseases, clinical immunology and endocrinology. We adopt disease line dimensions in our classification system according to the specialized classification habits of our end clinical customers. Each disease line is divided into three levels: "disease line – sub-series – testing items". We match the diagnostic needs of specialized clinical disciplines through various key sub-series. Furthermore, taking customers' needs into consideration, we thoroughly examine and analyze key cases in each disease line to identify the needs of commencing new projects and optimize the key testing items.

The Group attaches great importance to the integration and innovation of research, production and service, actively leverages on the advantages of a broad platform and integrates the resources of domestic and overseas universities, scientific research institutions and high-quality suppliers. In addition, with the assistance of advanced technologies such as digital medical and AI application, the Group helps hospitals build a platform for commercialization of scientific research innovation and achievement. In 2023, the Group cooperated with the Institute of Respiratory Health under the First Affiliated Hospital of Guangzhou Medical University, Haikou Hospital of the Maternal and Child Health, The Sixth People's Hospital of Nansha District, Guangzhou and other institutions in the field of scientific research, in order to serve the scientific research and clinical needs of medical institutions through the integration of research, production and service, accelerate industrialization and commercialization of scientific research achievements, and improve the accessibility of high-quality medical resources. Among these, the Group signed a strategic cooperation agreement with the Sixth People's Hospital of Nansha District, Guangzhou to build the first "Regional Lithiasis Analysis and Diagnostic Center" in China, with an aim to work together in the prevention and treatment of lithiasis, and provide important diagnostic and treatment references and guidelines for clinical doctors engaged in the diagnosis and treatment of lithiasis in China. The Diagnostic Center will play an important role in ascertaining the personalized medical treatment plans for patients with lithiasis, analyzing the characteristics of regional distribution of lithiasis, and assisting the government in conducting public health assessment and determining respective financial budgets for lithiasis.

In 2023, the Group's investment in R&D amounted to RMB55.3 million, which increased as a percentage of operating revenue from 2.5% for the year ended December 31, 2022 to 6.2% for the year ended December 31, 2023. We will continue to increase our investment in R&D and seek cooperation with industry leaders to maintain our leading position in the field of relevant technologies. As at the end of the Reporting Period, the Group had been granted a total of 319 patents and intellectual property rights, including authorized invention patents, authorized utility model patents, software copyright patents, etc.

2.4 Rapidly replicating the model of joint innovation platform for diagnostic testing

With the new healthcare reform entering the stage of premium development, the Group actively responds to relevant policy guidelines by cooperating with Guangdong Provincial People's Hospital to establish the joint innovation platform for diagnostic testing. In April 2023, the innovation platform launched three joint tNGS products at the Third Academic Conference on Bacterial and Fungal Infections of the Chinese Medical Association, and initiated the preparation of the Expert Consensus on Standardized Clinical Application of tNGS at the same time; in June 2023, the joint innovation platform for diagnostic testing attracted six hospitals, including Peking University Shenzhen Hospital, as the first batch of sub-platforms to jointly promote the standardized application of innovative diagnostic products in clinical practice; in December of the same year, an invention patent jointly applied by Guangdong Provincial People's Hospital and the Group was successfully accepted by the China National Intellectual Property Administration.

During the Reporting Period, the Group jointly established innovation platforms for diagnostic testing with more than 10 well-known domestic universities and affiliated hospitals.

2.5 Customer demand-based digital intelligent R&D platform and AI-assisted diagnosis technology application

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

With a focus on the customer-oriented digital intelligent R&D, the Group deeply explores the significant roles of remote pathology in breaking the barriers of time and space and effectively promoting the channeling of quality medical resources to lower-tier regions, accelerating the promotion of "Medical Treatment + Digitalization", building and constantly optimizing the remote pathology platform, helping medical institutions at all levels to access the Group's remote pathology consultation network, and fulfilling the commitment to serve local people's well-being with high-end medical technologies. As at December 31, 2023, the Group's remote pathology platform covered 536 medical testing items and successfully operated in more than 291 jointly constructed laboratories, comprehensively improving the quality of testing and efficiency of diagnosis and creating a digital pathology consultation system that efficiently empowers medical institutions at all levels.

The remote pathology platform of the Group is designed and constructed in accordance with standards of the CAP, the CLSI and domestic pathology standards. It adopts advanced digital slice image processing and network communication technology. Leveraging on the Group's pathologist team resources, the platform is capable of remote pathology consultation, remote image reading exchanges, online teaching, quality control and industry academic exchanges. The platform has a network of authoritative international and domestic pathologists and support from well-known international institutions, providing comprehensive remote pathology service solutions for pathology departments of hospitals at all levels.

In 2023, the Group improved the reviewing and reporting process, internal management and operation functions of the remote pathology platform to speed up the process of reviewing and reporting and improve information security. At the same time, the Group successfully completed the construction and operation of multiple clinical diagnosis and treatment application platforms such as 5G+ remote pathology digital diagnosis and treatment platform and AI-assisted pathology screening.

As at December 31, 2023, the Group had more than 170 pathologists from home and abroad, and had assisted doctors to issue a total of 700,000 digital pathology diagnostic reports so far, helping hospitals to improve the efficiency of their departments by about 45%.

Cervical cancer is one of the six most common cancers among women in China. In order to improve women's health, the National Health Commission of the PRC requires that the screening rate of cervical cancer for women within the suitable age range to reach more than 50% by the end of 2025, and the screening method shall be improved in order to increase screening quality and efficiency, so as to achieve a screening and early diagnosis rate of over 90%. Starting from cervical cytology, which is the most commonly used method for cervical cancer screening, the Group promotes the application of AI-assisted diagnosis in cervical liquid-based cytopathology testing items, realizing 24-hour operation of pathological cytology diagnosis, greatly enhancing the accuracy and efficiency of image reading and reducing the risk of missed diagnosis. Meanwhile, the Group not only actively establishes benchmarking cooperation with medical institutions to build application demonstration sites, but also creates a new model of pathological AI joint initiative to empower medical institutions in improving their diagnostic capabilities and quality. In 2023, by applying AI-assisted cervical liquid-based cytology pathology diagnosis, the Group completed tens of thousands of cervical liquid-based cell sample testing, promoting the continuous advancement of digital pathology technology.

In addition, in May 2023, under the full technical support of the Group, the Department of Pathology of Nanning Tenth People's Hospital was officially put into operation. In addition to contributing its enhanced pathology testing capabilities, the Group also assisted the hospital in building a remote pathology consultation system, importing the technical advantages and expert resources of the Group's remote pathology consultation platform, assisted the hospital in carrying out consultation on difficult cases, intra-operative frozen section diagnosis, remote quality control, image reading exchanges and online training and learning etc., thereby effectively increasing the hospital's overall diagnostic standard of pathology.

2.6 Testing services productive platform focusing on cutting-edge technologies – the Yunkang Precision Medicine Centers

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

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

Relying on its existing technology platforms and extensive customer service network coverage, the Yunkang Precision Medicine Centers provide more universal, high-quality and convenient precision medical diagnostic services, covering three major disease areas of cancer, genetic diseases and infectious diseases, which benefits a wide range of patients at all levels of the healthcare system.

As a professional medical service institution, the Group continues to focus on precise diagnosis and treatment of respiratory infectious diseases. By focusing on nearly 100 common respiratory tract infection pathogens and drug resistance genes in clinical practice, the Yunkang Precision Medicine Centers provide more efficient and comprehensive clinical testing to quickly identify the types of pathogens, which assists clinical doctors in determining reasonable treatment plans for patients, provides in-depth testing services for the diagnosis and early treatment of infectious diseases, and effectively controls the occurrence and development of diseases, thereby benefiting a great number of patients.

Furthermore, for the early diagnosis of colorectal cancer, the Group provides precise diagnosis plans to enable patients to achieve "early prevention, early detection and early treatment". The Yunkang Precision Medicine Centers utilize high-throughput sequencing technology, comprehensively covering colorectal cancer targeted drug sites recommended by guidelines and commonly used chemotherapy drug sites. At the same time, relying on its professional pathology team, combined with its own advanced algorithms, and guided by major clinical guidelines, the Yunkang Precision Medicine Centers issue practical reports that meet clinical needs to help evaluate the effectiveness of drug treatments and provide guidance for personalized clinical treatment.

As at December 31, 2023, the Group had a total of 12 Precision Medicine Centers constructed by itself or jointly constructed with medical institution alliances.

2.7 *Continuous improvement and innovation in quality*

The Group continues to make efforts in the construction of a standardization system and has achieved outstanding results. Based on the experience of cooperating with CLSI, an international authoritative professional organization, in promoting the establishment of a standardized quality control system for medical laboratories, the Group has completed the drafting and formulation of the Quality and Competency Standards Guideline for Medical Laboratories (Second Edition) during the year. The scope of application and implementation of the guideline has been extended to various diagnostic testing departments at all levels of medical institutions and the guideline has been effectively applied to the operation and management of laboratories in various regions. Furthermore, the Group participated in the drafting of the Expert Consensus on Standardized Clinical Application of tNGS《tNGS臨床規範化應用專家共識》 which was led by the Guangdong Provincial People's Hospital and has attained progress in the fields of clinical application, demonstration and promotion so far. In addition, we have also participated in the compilation of the Group Standards for the Planning, Construction and Operation and Maintenance of Clinical Laboratories of Smart Hospitals《智慧醫院臨床實驗室規劃建設與運維管理指南》 which was organized by the China Association for Quality Inspection.

By the end of the Reporting Period, we had successfully obtained the ISO15189 and CAP dual accreditation for the three laboratories in Guangzhou, Chengdu and Shanghai. Among these, our laboratory in Chengdu has obtained the ISO15189 accreditation and passed additional assessment for ten consecutive years. Our laboratory in Guangzhou has also obtained ISO15189 quality control system certification for 13 consecutive years and passed the China Metrology Accreditation (CMA) again. The Yunkang Precision Medicine Laboratory has passed dozens of inter-laboratory quality assessments organized by the National Health Commission's Clinical Laboratory Center, Shanghai Clinical Laboratory Quality Control Center, and Guangdong Pathology Professional Quality Control Center and other professional institutions with full scores. In addition, the Group empowers hospitals with its expertise to create a high-quality medical diagnostic service system and assisted multiple hospitals in passing the ISO15189 on-site assessment during the Reporting Period.

2.8 *Reducing costs and improving efficiency by lean operations*

In terms of cost control, the Group has effectively reduced operating costs by optimizing internal management processes and improving operational efficiency. At the same time, the Group has also actively established long-term and stable cooperative relationships with suppliers to ensure stable supply and cost control. During the Reporting Period, the Group completed the Robust Project Scheme, and by sorting out its internal value creation process, the Group had set up standards for quality, establishing timeliness and cost control points in the process, analyzing the gap between the current situation and the standards, and establishing rules and mechanisms to avoid disorganization. The effective implementation of the Robust Project Scheme and the active participation of all members of the Group have minimized operating costs.

2.9 Compliance operation

During the Reporting Period, the medical testing industry was affected by the relevant regulatory requirements and policies. The Group is fully aware of the importance of compliance and will continue to improve our governance structure in order to facilitate the long-term and comprehensive development of the Group. We pay close attention to and actively cooperate with the requirements of relevant regulatory authorities to ensure that our business complies with regulations and standards. We also pay close attention to changes in industry policies and their impact on medical testing services. We will flexibly adjust our strategies to adapt to the evolving regulatory environment and ensure the long-term and sustainable development of the Group.

2.10 Environmental, social and governance ("ESG")

Committed to facilitating the development of the medical and healthcare industry, the Group always practices the ESG philosophy and incorporates ESG-related concerns into the development strategy of the Group, continues to improve ESG management, and fulfills its social responsibilities in aspects such as corporate governance, environmental protection, labor practices, service quality, and community feedback to create greater value for the Group, the society and the environment. During the Reporting Period, the Group actively ensured compliance of the requirements of the Stock Exchange's new regulations, established a sound ESG and climate change management system, actively identified and evaluated important ESG issues, supervised the effective implementation of ESG-related targets and daily implementation, and continuously enhanced the sustainable development management capabilities. In the future, the Group will continue to integrate ESG development philosophy into strategic planning, business management, customer services and other aspects, devote itself into further improving public health and providing more professional, efficient, accurate and convenient medical and health testing services to the general public, aiming to become a world-class healthcare enterprise.

2.11 Highly recognized corporate governance

The Group's efforts in corporate governance have been well recognized by the market. During the Reporting Period, the Group won several awards, including the four awards in the 2022 Vision Awards Annual Report Competition organized by the League of American Communications Professionals, the "ESG Special Recognition Award" in the Environmental, Social and Governance Awards of 2023 given by the Hong Kong Television Broadcasts Limited, and three major awards in the 7th China IR Annual Awards.

3. Future development objectives and directions

In 2024, under the guidance of the business principle of "in-depth services and lean operations", we will focus on the core theme of "dredging for a deep bay or leaving it as a shallow lake, and leading the industry development in a healthy and orderly manner", for a purpose of achieving the long-term objectives of the Group, including optimizing the allocation of medical resources and accelerating industry development. The Group will adopt active development strategies, including but not limited to the following:

3.1 Focus on customer demands and utilize the Group's value

Focusing on customer demands, the Group makes its technology platform, expert resources, product solutions, business cooperation solutions, professional logistics capabilities, digital operation capabilities and marketing capabilities easily accessible to customers, and integrates them into the creation of customers' value chain, so as to provide customers with a better service experience and continuously improve operational efficiency.

In the coming year, we will continue to deepen and promote cooperation with key customers through the mode of school-enterprise cooperation and the innovative collaboration between hospitals and diagnostic testing services, and establish cooperative relationships with medical schools and affiliated hospitals in key provinces and regions. Meanwhile, we will work with experts with scientific research implementation capabilities and willingness from leading hospitals to establish a joint innovative cooperation platform for diagnostic testing in order to support experts for implementing their clinical and diagnostic "golden ideas" into new diagnosis and treatment solutions, so as to benefit more doctors and patients, enhance the cooperation between the two parties and increase the competitiveness of the Group's products and customer solutions.

We put ourselves in the position of each and every customer, and are committed to finding the real customer needs and solving them in a serious and timely manner, maximizing the potential of our customers. Through practicing and deepening the in-depth service marketing, we have accumulated customer management experience, improved organizational and team capabilities, and built competitive advantages, thereby achieving the results of in-depth cultivation, intensive cultivation and exploring the potential of existing customers.

3.2 Implement new product development mechanism to enhance the competitiveness of the Group's products

The Group formulates product management plans that match the market and customer needs, strengthens our observation on product and market trends in order to improve our planning quality, and combines generic products with personalized product needs in various regions, so as to establish our product development and promotion capabilities in flexibly allocating product resources. We will continue to increase our investment in technological innovation and R&D to provide more accurate, reliable and efficient medical testing services. We will pay close attention to the latest development trends in the industry and cooperate with our partners to jointly promote technology innovation.

3.3 Adhere to digitalized construction

Digitalization is the Group's strategy and is also the trend in the healthcare industry. In 2023, the Group's top 10 digital operation systems such as Turn Cloud Technology fully integrated the Group's sales management system, human resources system, training system, settlement system, general ledger system, fixed asset system, warehousing system, logistics system and customer service system, etc. At this point, the Group's digital operation will embrace a new era. Analyzing and managing the operation big data can help us establish a standardized operation indicator system and identify fundamental issues, allow us to have an insight into the business and improve the operations, continuously facilitating the Group's abilities in in-depth service and lean operation. We plan to independently build an "end-to-end" digital platform for the Group's laboratories in two to three years, i.e., a closed loop formed by the process of receiving samples from hospitals, laboratory issuing reports, and customers giving feedbacks on sample quality, while ensuring the integrity and accuracy of the data at several process nodes, such as hospital receiving samples, preprocessing samples, issuing reports, and customers' feedbacks on quality.

3.4 Deepen the operation and management of jointly constructed laboratories, boost the operating performance of jointly constructed laboratories

The Group has jointly established 416 on-site diagnostic centers so far, and the number will continue to rise in the future. Through reorganizing and reshaping, the Group has strengthened the daily management of the jointly constructed laboratories and established an operating system for jointly constructed laboratories, thereby improving labor efficiency and operating efficiency.

3.5 Expand market share

We will seek to increase our revenue by expanding market share. We plan to further extend our business coverage, expand into new regional markets and strengthen cooperation with medical institutions, so as to increase our customer acquisition and retention rates.

3.6 Increase R&D investment, focus on precision medicine and intelligent testing

The Company will continue to increase R&D investment, focus on the areas of precision medicine and intelligent testing, so as to meet the increasingly market demands for refined and personalized solutions.

AI-assisted diagnosis is a trend for the development of testing and diagnostic technologies, and this technology will effectively increase the accuracy and efficiency of the diagnosis, and reduce operating costs. In terms of clinical testing, the Group will introduce and develop AI technological applications for gene sequencing reports analysis. In terms of pathology, we will develop mature histopathology and cytogenetics AI-assisted diagnostic products on the basis of the application of liquid-based cytology AI analysis items, so as to achieve the Group's advantages in expertise and technologies.

3.7 Boost service quality

We will continue to boost service quality by strengthening the internal training and quality control system, so as to ensure our services meet international standards and customers' expectations. At the same time, we will actively respond to the customer feedbacks and make constant improvements to meet the demands of customers.

3.8 Constantly cultivate and supply technical staff for the Company

The Group plans to constantly attract and train exceptional and experienced personnel to support our continuous business expansion. Medical technicians and the management personnel are considered the backbone of our business, and the Group will, based on our business development, continue to attract related personnel to improve our expertise and management capabilities. In order to motivate each employee to work proactively and build a "hard worker oriented" working environment, the Group has established an employee promotion and development system with a hierarchical structure and corresponding remuneration package, and also motivated employees and aligned their interests with that of the Group through incentive schemes. Moreover, the Group will implement training programs for different departments to enhance their professional and technical knowledge. The Group will also attract and cultivate more talents.

In conclusion, while we are facing challenges, but at the same time there are also plenty of opportunities. With the healthcare market and hospital customers focusing more on cost reduction and performance improvement, third-party medical diagnostic services, as an important supplement to public medical institutions, are receiving more and more attention, and the market for medical diagnostic testing services is expanding. We will continue our commitment to providing outstanding medical testing services, enhancing integration with hospital customers through lean operations so as to better respond to customer needs, and seeking sustainable growth through technology innovation, team building and market expansion. In the future, the Group will continue to utilize its own value, devote itself into improving public health standards and strive to offer more professional, efficient, accurate and convenient medical and health testing services to medical institutions and the general public.

FINANCIAL REVIEW

Overview

The financial summary set out below is extracted or calculated from the audited consolidated financial statements of the Group for the Reporting Period which were prepared in accordance with the applicable disclosure provisions of the Listing Rules, including compliance with Hong Kong Financial Reporting Standards.

Revenue

Revenue of the Group amounted to RMB891.5 million for Reporting Period, representing a decrease of 76.3% compared to RMB3,756.2 million for the year ended December 31, 2022. Such decrease was primarily attributable to the decline in demand for phased testing and screening services nationwide. However, without taking into account such impact, the Group's routine testing business had achieved a healthy and steady growth during the Reporting Period.

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

	For the year ended December 31,		
	2023 RMB'000	2022 RMB'000	Change
Recognized at a point in time:			
– Diagnostic outsourcing services	**413,615**	1,944,173	(78.7)%
– Diagnostic testing services for medical institution alliances	**430,874**	1,680,559	(74.4)%
– Diagnostic testing services for non-medical institutions	**47,011**	131,469	(64.2)%
	891,500	3,756,201	(76.3)%

Diagnostic Outsourcing Services

Revenue generated from diagnostic outsourcing services decreased by 78.7% from RMB1,944.2 million for the year ended December 31, 2022 to RMB413.6 million for the year ended December 31, 2023, primarily due to the decline in demand for phased testing and screening services nationwide. However, without taking into such impact, the Group's routine testing business had achieved a healthy and steady growth as compared to 2022.

Diagnostic Testing Services for Medical Institution Alliances

Revenue generated from diagnostic testing services for medical institution alliances decreased by 74.4% from RMB1,680.6 million for the year ended December 31, 2022 to RMB430.9 million for the year ended December 31, 2023. The decrease was primarily due to the decline in demand for phased testing and screening services nationwide. However, the Group was active in leveraging its business advantages in providing diagnostic testing services to the medical institution alliances, promoted the construction of on-site diagnostic centers including pathology, infectious diseases, genetic diseases, routine testing, etc. while further enriching appropriate testing product items, increasing the revenue from diagnostic testing services provided to the medical institution alliances as a percentage of total revenue, making it the largest business segment of the Group in terms of revenue, and achieved a healthy and steady growth without considering the impact of the decline in demand for phased testing during the Reporting Period.

Diagnostic Testing Services for Non-Medical Institutions

Diagnostic testing services for non-medical institutions are mainly provided through our outpatient clinics, serving individual customers. During the Reporting Period, revenue generated from diagnostic testing services for non-medical institutions decreased by 64.2% from RMB131.5 million for the year ended December 31, 2022 to RMB47.0 million for the year ended December 31, 2023, primarily due to the decline in demand for phased testing and screening services nationwide.

Cost of Revenue

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

The Group's cost of revenue decreased by 76.9% from RMB2,448.5 million for the year ended December 31, 2022 to RMB565.7 million for the year ended December 31, 2023, primarily attributable to the decline in demand for phased testing and screening services nationwide, resulting in the decrease in cost aligning with the decrease in revenue.

Gross Profit and Gross Profit Margin

As a result of the aforementioned factors, the Group's gross profit decreased by 75.1% from RMB1,307.7 million for the year ended December 31, 2022 to RMB325.8 million for the year ended December 31, 2023. The Group's overall gross profit margin increased from 34.8% for the year ended December 31, 2022 to 36.5% for the year ended December 31, 2023, primarily due to enhanced operational and management capabilities in connection with cost control.

Other Income

The Group's other income decreased by 54.5% to RMB9.1 million for the year ended December 31, 2023, as compared to RMB20.0 million for the year ended December 31, 2022. The decrease was mainly due to the decrease in government grants.

The government grants mainly include those grants from the local government in recognition of the research and development projects of the Group. There are no unfulfilled conditions or other contingencies attached to these grants.

Selling Expenses

The Group's selling expenses decreased by 51.6% from RMB312.0 million for the year ended December 31, 2022 to RMB150.9 million for the year ended December 31, 2023, which was in line with the decrease in the Group's revenue.

Administrative Expenses

The Group's administrative expenses decreased by 50.4% from RMB386.7 million for the year ended December 31, 2022 to RMB191.6 million for the year ended December 31, 2023, primarily due to (i) the reduction of staff costs as a result of cost control; and (ii) no listing expenses incurred during the Reporting Period.

The Group's R&D expenses decreased by 41.6% from RMB94.7 million for the year ended December 31, 2022 to RMB55.3 million for the year ended December 31, 2023, and the percentage of R&D expenses to total revenue increased from 2.5% for the year ended December 31, 2022 to 6.2% for the year ended December 31, 2023, primarily due to the Group's continued focus on the R&D of medical technologies and operating systems.

Impairment Losses on Financial Assets

The Group's impairment losses on financial assets were mainly provisions for trade receivables. For the year ended December 31, 2023, the Group's impairment losses on financial assets were approximately RMB104.6 million, representing a decrease of 44.2% from RMB187.6 million for the year ended December 31, 2022, mainly due to the decrease in the gross balances of trade receivables.

Finance Costs, net

The Group's net finance costs increased from RMB15.1 million for the year ended December 31, 2022 to RMB34.2 million for the year ended December 31, 2023, primarily due to the increase in interest expense on interest-bearing borrowings.

(Loss)/profit before Income Tax

As of result of the aforementioned factors, the Group recorded loss before income tax of RMB86.8 million for the year ended December 31, 2023, compared to profit before tax of RMB443.4 million for the year ended December 31, 2022. The loss before income tax of the Group for the year ended December 31, 2023 was mainly attributable to the significant decrease in the Group's overall revenue as compared to last year as a result of the decline in demand for phased testing and screening services nationwide, as well as the relatively large amount of impairment provision due to the longer collection period of certain trade receivables.

Income Tax Expenses

The Group recorded income tax expenses of RMB15.1 million for the year ended December 31, 2023 as compared to income tax expenses of RMB69.5 million for the year ended December 31, 2022, primarily due to the turnaround from net profit to net loss.

Property and Equipment

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

The Group's property and equipment decreased from RMB420.6 million as at December 31, 2022 to RMB396.9 million as at December 31, 2023, primarily due to the reduction of the right-of-use assets of leased properties.

Financial Assets Measured at Fair Value

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

As at December 31, 2023, the balance of financial assets at FVTPL was RMB789.0 million, representing a mild decrease of RMB13.8 million compared to RMB802.8 million as at December 31, 2022. Changes in fair value of financial assets at FVTPL were not material during the Reporting Period.

As at December 31, 2023, the balance of financial assets at FVOCI was RMB74.5 million, representing a decrease of RMB9.8 million compared to RMB84.3 million as at December 31, 2022. The decrease in the fair value of the investment was mainly attributable to the decline in the appraised value of unlisted investee companies.

For more details of the Group's financial assets measured at fair value, please refer to Note 21 to the consolidated financial statements in this annual report.

Inventories

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

The Group's inventories decreased from RMB41.3 million as at December 31, 2022 to RMB18.0 million as at December 31, 2023, which was attributable to the reduction of the Group's procurement scale in line with the decrease of its business scale and the enhancement of inventory management.

Trade and Other Receivables and Prepayments

The Group's trade and other receivables and prepayments decreased from RMB2,566.6 million as at December 31, 2022 to RMB1,548.8 million as at December 31, 2023, primarily attributable to the collection of trade receivables and the decrease in revenue resulting from reduced demand for diagnostic testing services. The Group's credit period with customers is generally within 180 days. In line with industry practice, the settlement period of certain customers including public hospitals and Chinese Center for Disease Control and Prevention (中國疾病預防控制中心) involves long-period internal administrative procedures. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimize credit risk. Overdue balances are reviewed regularly by senior management.

Trade and Other Payables

The Group's trade and other payables decreased from RMB1,492.1 million as at December 31, 2022 to RMB975.5 million as at December 31, 2023, which was primarily due to the reduction of the procurement scale of the Group in line with the decrease in revenue for the year.

Capital Management

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

Liquidity and Financial Resources

The Group's cash and cash equivalents increased from RMB787.7 million as at December 31, 2022 to RMB1,244.1 million as at December 31, 2023, which was primarily due to the increase in net cash generated from operating activities as a result of the Group's strengthened receivables management and net cash generated from recovery of previous investments. For details of the Group's borrowings, please refer to the item headed "Borrowings and Gearing Ratio" in this section.

Net Current Assets

The Group's net current assets decreased from RMB2,189.0 million as at December 31, 2022 to RMB1,649.7 million as at December 31, 2023.

Key Financial Ratios

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

	For the year ended December 31,	
	2023	2022
Gross profit margin[1]	**36.5%**	34.8%

	As at December 31,	
	2023	2022
Current ratio[2]	**1.75**	2.11
Quick ratio[3]	**1.75**	2.08
Debt to asset ratio[4]	**0.53**	0.48

Notes:

(1) Gross profit margin is calculated based on gross profit divided by revenue and multiplied by 100%.

(2) Current ratio is calculated based on total current assets divided by total current liabilities.

(3) Quick ratio is calculated based on total current assets less inventories divided by total current liabilities.

(4) Debt to asset ratio is calculated as total liabilities divided by total assets.

Capital Commitments

The Group's capital commitment in 2023 was mainly related to the construction on the land acquired in 2019, which amounted to RMB298.2 million as at December 31, 2023 as compared to RMB309.4 million as at December 31, 2022.

Contingent Liabilities

As at December 31, 2023, the contingent liability of RMB19,199,000 was related to a legal dispute against the Group initiated by a subcontracting service provider of the Group which remains outstanding as at the Latest Practicable Date. The legal dispute is about disagreement on the (i) determination basis of certain subcontracting service fee and (ii) the related penalty for the delay in payment of such subcontracting service fee.

Financing and Treasury Policies

The Group adopts centralized financing and treasury policies in order to ensure the Group's funding is utilized efficiently. The Group's liquidity position remains healthy and the Group possesses sufficient cash and available banking facilities to meet its commitments and working capital requirements.

The Group's primary objectives for managing its capital are to safeguard the Group's ability to provide returns to Shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost. The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder's returns that might be possible with higher level of borrowings and the advantage and security based on a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Foreign Exchange Risk

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

Cash Flow and Fair Value Interest Rate Risk

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

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

Credit Risk

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

Liquidity Risk

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

Borrowings and Gearing Ratio

As at December 31, 2023, the Group had borrowings of RMB1,347.8 million (December 31, 2022: RMB691.8 million), of which RMB1,051.7 million (December 31, 2022: RMB471.4 million) were at fixed interest rates. The borrowings equivalent to approximately RMB86.1 million as at December 31, 2023 were originally denominated in Hong Kong dollars.

As at December 31, 2023, the gearing ratio of the Group (calculated as total interest-bearing borrowings and lease liabilities divided by total equity plus other financial liabilities as at the same date) increased to 65.6%, compared to 31.0% as at December 31, 2022.

Pledge of Assets

As at December 31, 2023, the borrowings of approximately RMB497.0 million (December 31, 2022: RMB100.4 million) were secured by certain of the Group's equipment and pledged time deposits.

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

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

Events after the Reporting Period

No important events affecting the Group occurred since December 31, 2023 and up to the Latest Practicable Date.

Future Plans for Material Investments and Capital Assets

The Group does not have any concrete committed plans for material investments and capital assets as at the Latest Practicable Date.

Employees and Remuneration

As at December 31, 2023, the Group had 1,510 employees (December 31, 2022: 2,605). The total remuneration cost incurred by the Group for the year ended December 31, 2023 was RMB299.7 million (for the year ended December 31, 2022: RMB518.6 million). The remuneration package of the Group's employees includes salary and bonus, which are generally determined by their qualifications, industry experience, position and performance. The Group makes contributions to social insurance and housing provident funds as required by the PRC laws and regulations. Apart from offering a competitive remuneration and benefits package, the Group provides corporate and vocational training to its employees according to the training and development policy of the Group.

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

Board of Directors and Senior Management

EXECUTIVE DIRECTOR

Mr. Zhang Yong (張勇), aged 53, joined our Group on May 28, 2008. He is the Chairman, executive Director and chief executive officer of our Company. He was appointed as our Director on July 20, 2018 and was re-designated as our executive Director and appointed as our chief executive officer on February 7, 2021. He is mainly responsible for overall management, strategic planning and decision-making of the Group.

From January 1997 to June 2002, Mr. Zhang worked at the predecessor of Guosen Securities Co., Ltd. (國信證券股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange (stock code: 002736). From January 2003 to August 2004, he served as director and general manager at Shenzhen Tongsheng Venture Capital Management Co., Ltd. (深圳市同盛創業投資管理有限公司). From December 12, 2004 to September 9, 2010, he served as director and general manager at Shenzhen Huize Venture Capital Management Co., Ltd. (深圳市匯澤創業投資管理有限公司). He was awarded "China Business Management Awards 2020" by China Enterprise United (Beijing) Human Resource Management Center (中企聯合(北京)人力資源管理中心) in November 2020.

Mr. Zhang obtained a bachelor's degree in accounting from Central University of Finance and Economies (中央財經大學) in the PRC in June 1993. He obtained an executive master of business administration degree from Peking University (北京大學) in the PRC in July 2006.

NON-EXECUTIVE DIRECTORS

Ms. Huang Luo (黃珞), aged 43, was appointed as our non-executive Director on August 11, 2022. Ms. Huang is primarily responsible for overseeing the management and strategic development of the Group.

Ms. Huang has extensive experience in business management. From January 2016 to April 2021, Ms. Huang served as the chairperson and general manager of Guangzhou Daan Chuanggu Enterprise Management Co., Ltd. (廣州市達安創谷企業管理有限公司), primarily responsible for its business operation and management. From March 2004 to December 2015, Ms. Huang served as the human resources manager of Daan Gene Co., Ltd. (廣州達安基因股份有限公司). From May 2022 to June 2023, she served as a director of Guangzhou Life Technologies DaAn Diagnostics Co., Ltd. (廣州立菲達安診斷產品技術有限公司).

Since August 2021, Ms. Huang has been serving as the executive director and general manager of Guangzhou Daan Gene Technology Co., Ltd. (廣州市達安基因科技有限公司). Since June 2021, she has been serving as Party branch secretary and Youth League branch secretary, and supply chain director of Daan Gene Co., Ltd. (廣州達安基因股份有限公司). She is mainly responsible for national supply chain management. Since June 2022, she has been serving as a director and general manager, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 002030). In addition, since February 2022, she has been serving as a director of Guangzhou Darui Biotechnology Co., Ltd. (廣州市達瑞生物技術股份有限公司), the shares of which are listed on the National Equities Exchange and Quotations (stock code: 832705). In July 2022, she has been appointed as the executive director, general manager and legal representative of Guangzhou Dayian Trading Co., Ltd. (廣州達醫安貿易有限公司). In September 2022, she has been appointed as the executive director, manager and legal representative of Guangzhou Anying Medical Equipment Co., Ltd. (廣州安贏醫療設備有限公司). In December 2022, she has been appointed as a director of Yunkang Industry Investment Co. Ltd. (雲康健康產業投資股份有限公司).

In June 2003, Ms. Huang obtained her bachelor's degree in jurisprudence from Hunan Normal University (湖南師範大學). In June 2012, Ms. Huang obtained her master's degree in business administration from Sun Yat-sen University (中山大學). In December 2004, Ms. Huang joined the Chinese Communist Party.

Dr. Wang Pinghui (王憑慧), aged 64, was appointed as our non-executive Director on August 30, 2023. Dr. Wang is primarily responsible for overseeing the management and strategic development of the Group.

Dr. Wang is currently a foreign academician of the Russian Academy of Engineering, an academician of the International Academy of Astronautics, a National Leading Talent (國家級領軍人才) and the executive chairman of UNIDO's Expert Committee of Global Alliance for Science, Technology and Innovation (聯合國工業發展組織全球科技創新聯盟專家委員會).

Dr. Wang has rich experience in technological research and product development in the field of aerospace, with the major research direction being the unmanned system technology, electronic technology, information perception and processing technology. From July 1983 to August 2005, Dr. Wang served as a senior engineer of Beijing Institute of Aerospace Systems Engineering (北京航天系統工程研究所). From August 2005 to May 2017, Dr. Wang served as a researcher of China Academy of Aerospace Electronics Technology (中國航天電子技術研究院) of China Aerospace Science and Technology Corporation (中國航天科技集團有限公司). Since May 2017, Dr. Wang has been serving as a professor, doctoral supervisor and director of Aerospace Technology Innovation Center (航空航天技術創新中心) at Southern University of Science and Technology (南方科技大學).

In July 2005, Dr. Wang received his Ph.D. degree from Beijing University of Aeronautics and Astronautics (北京航空航天大學).

Dr. Wang Ruihua (王瑞華), aged 62, was appointed as our non-executive Director on July 11, 2022. Dr. Wang is primarily responsible for overseeing the management and strategic development of the Group.

Dr. Wang served as a director of MBA Education Center of Central University of Finance and Economics (中央財經大學MBA教育中心) from July 2006 to September 2019, and served as the president of Business School of Central University of Finance and Economics (中央財經大學商學院) from December 2012 to September 2019. Since September 2020, Dr. Wang has been serving as the executive president and a professor of the Central University of Finance and Economics, Greater Bay Area Research Institute (中央財經大學粵港澳大灣區(黃埔)研究院).

Dr. Wang has over 10 years of experience as director of listed companies. From April 2008 to April 2014 and from May 2015 to March 2021, Dr. Wang served as an independent director of Beijing Zhong Ke San Huan Hi-Tech Co., Ltd. (北京中科三環高技術股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000970). From March 2011 to June 2017 and since September 2019, Dr. Wang served and has been serving as an independent director of Anhui Gujing Distillery Company Limited (安徽古井貢酒股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange (stock code: 000596). From February 2015 to May 2020, Dr. Wang served as an independent director of Harbin Gloria Pharmaceuticals Co., Ltd. (哈爾濱譽衡藥業股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange (stock code: 002437). From March 2020 to September 2022, he served as an independent director of BCEG Environmental Remediation Co., Ltd. (北京建工環境修復股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange (stock code: 300958). Since December 2019, Dr. Wang has been serving as an independent director of Bank of Beijing Co., Ltd. (北京銀行股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 601169).

Dr. Wang obtained his PRC certified public accountant certificate from the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in September 1996.

In July 1983 and July 1987, Dr. Wang obtained his bachelor's and master's degrees in economics from Central Institute of Finance and Banking (中央財政金融學院) (currently known as Central University of Finance and Economics (中央財經大學)), respectively. In July 2003, Dr. Wang obtained his doctoral degree of management from Central University of Finance and Economics.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yu Shiyou (喻世友), aged 68, was appointed as our independent non-executive Director on April 1, 2022. He is primarily responsible for supervising and providing independent judgement to the Board.

Mr. Yu started to work at Lingnan (University) College of Sun Yat-sen University (中山大學嶺南(大學)學院) since June 1995 and was promoted as vice principal of Sun Yat-sen University (中山大學) in January 2009. He served as the principal of Nanfang College of Sun Yat-sen University (中山大學南方學院) from February 2013 to January 2024. From February 2018 to February 2024, Mr. Yu served as the independent non-executive director of CSSC Offshore & Marine Engineering (Group) Company Limited (中船海洋與防務裝備股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600685) and the Stock Exchange (stock code: 00317).

Mr. Yu obtained his bachelor's degree in philosophy and his master's degree in economics from Huazhong University of Science and Technology (華中理工大學) (previously known as Huazhong College of Science and Technology (華中工學院)) in the PRC in January 1982 and July 1987, respectfully.

Mr. Lan Fenghui (藍逢輝), aged 59, was appointed as our independent non-executive Director on August 30, 2023. He is primarily responsible for supervising and providing independent judgement to the Board.

Mr. Lan is currently a member of the 14th Chinese People's Political Consultative Conference (第十四屆全國政協委員), the chairman of New Social Class Association in Sichuan Province (四川省新的社會階層人士聯誼會) and the vice chairman of China Certified Tax Agents Association (中國註冊稅務師協會).

Mr. Lan has rich experience in taxation, finance, insurance, accounting, etc. From July 1991 to December 1993, Mr. Lan served as an assistant lecturer at Sichuan Finance School (四川省財政學校) (renamed as Sichuan Finance and Economics Vocational College (四川財經職業學院) in 2006). From December 1993 to September 1997, Mr. Lan served as the chairman of the board of Sichuan Tai Long Industrial Co., Ltd. (四川省太龍實業有限公司). From September 1997 to December 2009, Mr. Lan served as the chairman of the board of Sichuan Zhongshui Union Certified Tax Agents Co., Ltd. (四川中稅聯合稅務師事務所有限公司) (renamed as Sichuan Zhongshui Union Enterprise Management Consulting Co., Ltd. (四川中稅聯合企業管理諮詢有限公司)).

Since December 2009, Mr. Lan has been serving as the president of UniTax Certified Tax Agent Co., Ltd. (尤尼泰稅務師事務所有限公司), and since March 2010, Mr. Lan has been serving as the chairman of the board of UniTax (Sichuan) Certified Tax Agent Co., Ltd. (尤尼泰(四川)稅務師事務所有限公司).

In July 1991, Mr. Lan received his bachelor's degree from Central Institute of Finance and Economics (中央財政金融學院) (renamed as Central University of Finance and Economics (中央財經大學) in May 1996). In July 2008, Mr. Lan received his executive master of business administration degree from Peking University (北京大學). In 1997, Mr. Lan was qualified as a Chinese Certified Tax Agent (中國註冊税務師).

Mr. Xie Shaohua (謝少華), aged 53, was appointed as our independent non-executive Director on April 1, 2022. He is primarily responsible for supervising and providing independent judgement to the Board.

From August 2007 to June 2018, Mr. Xie served as the vice general manager and chief finance officer at Sinotrans Shipping Limited (中外運航運有限公司). He has been serving as the chief finance officer at CM Energy Tech Co., Ltd. (華商能源科技股份有限公司), the shares of which are listed on the Stock Exchange (stock code: 00206), since July 2018.

Mr. Xie is a member of The Association of Chartered Certified Accountants.

Mr. Xie obtained a bachelor's degree in economics from Central College of Finance and Economics (中央財政金融學院) (currently known as Central University of Finance and Economics (中央財經大學)) in the PRC in June 1993 and a master's degree in economics from University of International Business and Economics (對外經濟貿易大學) in the PRC in November 2003. In December 2005, he obtained a master of business administration degree from The Chinese University of Hong Kong.

SENIOR MANAGEMENT

Mr. Zhang Yong (張勇), the Chairman, executive Director and chief executive officer of our Company. Please see "—Executive Director" in this section for details of his biography.

Mr. Wang Xubo (王旭波), aged 49, was appointed as the executive vice president of our Company on February 7, 2021. He joined the Group in October 2008 and is primarily responsible for assisting the chief executive officer for the overall management, strategic planning and decision-making of the Group.

Prior to joining our Group, Mr. Wang worked at Zhongtianqin Accounting Firm (中天勤會計師事務所) from October 1997 to August 2000. From September 2000 to July 2003, he worked at Dapeng Securities Company (大鵬證券有限責任公司). From August 2003 to October 2004, he served as deputy general manager at Shenzhen Tongsheng Venture Capital Management Co., Ltd. (深圳市同盛創業投資管理有限公司) and was mainly responsible for day-to-day management and operation and external investment strategies. From November 2004 to September 2008, he served as deputy general manager at Huize Venture Capital Management Co., Ltd. (匯澤創業投資管理有限公司) and was mainly responsible for day-today management and operation and external investment strategies.

Mr. Wang obtained his bachelor's degree in accounting from Nanjing University of Science and Technology (南京理工大學) in the PRC in June 1997. He obtained his master's degree in statistics from Zhongnan University of Economics and Law (中南財經政法大學) in the PRC in December 2004. He obtained his PRC certified public accountant certificate from the Chinese Institute of Certified Public Accountants in October 2003.

Mr. Lin Yingjia (林穎嘉), aged 45, was appointed as the chief financial officer and joint company secretary of our Company on February 7, 2021. He joined our Group in July 2009 and is primarily responsible for the overall management of financial, capital market and secretarial affairs of our Group.

Mr. Lin worked at Deloitte Touche Tohmatsu Certified Public Accountants Ltd. (Guangzhou branch) as an associate from August 2001 to June 2003 and a senior accountant from July 2003 to February 2004 and January 2005 to April 2007. He was mainly responsible for, among others, audit related engagements. He left Deloitte Touche Tohmatsu Certified Public Accountants Ltd. (Guangzhou branch) in June 2009 with his last position as audit manager.

Mr. Lin was admitted as a fellow of the Institute of Public Accountant in July 2007 by the Institute of Public Accountants, Australia (澳大利亞公共會計師協會). He obtained his PRC certified public accountant (non-practicing member) certificate in January 2010 from the Guangdong Provisional Institute of Certified Public Accountants (廣東省註冊會計師協會) and was awarded the professional designation of Certified Internal Auditor in November 2009 by The Institute of Internal Auditor (內部稽核協會).

Mr. Lin obtained a bachelor's degree in accounting from Guangdong University of Foreign Studies (廣東外語外貿大學) in the PRC in June 2001 and a master's degree in commerce from The University of Sydney in Australia in January 2005.

Mr. Hu Shanghua (胡尚華), aged 55, was appointed as the vice president of our Company on February 7, 2021. He joined our Group in March 2015 and is primarily responsible for Management of platform and systematic operation system, human resource, administration, legal supervision and brand building.

From August 2000 to February 2002, he served as the chief human resource officer at Guangdong Evergreen Group Company Limited (廣東恒興集團有限公司). From February 2006 to February 2008, Mr. Hu served as a member of evaluation expert panel of China Enterprise Human Resource Award (中國企業人力資源獎, the "**CEHRA**") in China Enterprises Evaluation Association (中國企業評價協會, the "**CEEA**"). From August 2008 to March 2014, he rejoined Guangdong Evergreen Group Company Limited as the vice president, primarily responsible for overall planning of human resource strategy and daily operation of aquatic products processing business. From March 2014 to March 2015, he served as the vice president of China Qinfa Group Ltd. (中國秦發集團有限公司), a company primarily engaged in the procurement, storage, transportation and sales of coal, the shares of which are listed on the Stock Exchange (stock code: 00866), primarily responsible for the overall planning of human resource strategy and normal operation of the group. From October 2009 to October 2012, he served as a director of International Human Resource Management Association (國際人力資源管理協會, the "**IHRMA**") and a member of the annual evaluation expert panel of China's Best Employer Brand.

Mr. Hu was awarded Silver Award of the CEHRA and Gold Award of the CEHRA by the CEEA in November 2005 and March 2007, respectively. He was also recognized as Outstanding Manager of China by China Company Union Human Resource Management Center, IHRMA and the Evaluation Committee of China's Best Employer in October 2011 and December 2012, respectively.

Mr. Hu obtained a bachelor's degree in mathematics education from Chongqing Normal University (重慶師範學院) in the PRC in July 1993 and a bachelor's degree in industrial foreign trade from the University of Electronic Science and Technology of China (電子科技大學) in the PRC in July 1995. He obtained a master of business administration degree from the National University of Singapore in August 2000.

Mr. Wang Tieding (王鐵丁), aged 57, was appointed as the vice president of our Company on February 7, 2021. He joined our Group in June 2011 and is mainly responsible for the business operation and management of our Company.

Prior to joining our Group, Mr. Wang worked at Guangzhou Car Co., Ltd. (廣州轎車有限公司) (previously known as Guangzhou Auto Mark Co., Ltd. (廣州標致汽車有限公司)) from July 1992 to July 1998. From July 1998 to January 2002, he served as the director of business section in the Beijing branch of Guangqi Honda Automobile Co., Ltd. (廣汽本田汽車有限公司). From March 2003 to March 2009, Mr. Wang served as the general manager of Guangzhou Jixing Auto Interior Decoration Co., Ltd. (廣州吉興汽車內飾件有限公司).

Mr. Wang obtained his bachelor's degree in automotive engineering from Tsinghua University in the PRC in July 1989. He obtained the professional certificate of Mechanical Engineer (intermediate) (機械工程師中級證書) from Guangzhou Municipal Commission of Science and Technology (廣州市科學技術委員會) (currently known as Guangzhou Municipal Science and Technology Bureau (廣州市科學技術局)) in December 1994.

Save as disclosed above, none of our Directors and senior management held any directorship in any public companies the shares of which are listed in the Stock Exchange or overseas stock markets during the three years prior to the date of this annual report.

To the best of the Board's knowledge, information and belief, save as disclosed in the annual report, our Directors and senior management do not have any relationship amongst them.

JOINT COMPANY SECRETARIES

Mr. Lin Yingjia (林穎嘉), is the joint company secretary and chief financial officer of our Company. Please see "－Senior Management" in this section for details of his biography.

Ms. Chan Lok Yee (陳濼而), was appointed as one of our joint company secretaries on January 11, 2021.

Ms. Chan is currently a senior manager of the corporate services department of Vistra Corporate Services (HK) Limited, a professional provider of corporate services. She has had over nine years of experience in providing company secretarial and compliance services to private and listed companies.

Ms. Chan obtained a bachelor's degree in arts from The Hong Kong Polytechnic University and a master's degree in science in professional accounting and corporate governance from The City University of Hong Kong. She has been an associate member of The Hong Kong Institute of Chartered Secretaries (currently known as The Hong Kong Chartered Governance Institute) and an associate member of The Institute of Chartered Secretaries and Administrators (currently known as The Chartered Governance Institute) in the United Kingdom since 2015.

Corporate Governance Report

The Board presents this corporate governance report in the Group's annual report for the year ended December 31, 2023.

COMPANY'S CULTURE

The Board believes that corporate culture underpins the long-term business, business success and sustainable growth of the Group. A strong culture enables the Company to deliver long-term sustainable performance and fulfil its role as a responsible corporate citizen. The Company is committed to developing a positive and progressive culture that is built on its purpose, vision and mission.

During 2023, the Company continued to strengthen its cultural framework by focusing on the following:

- vision: Yunkang, create a happy life
- mission: focus on the health needs of the public and strive to provide customers with professional, accurate, efficient and convenient medical and health services
- values: integrity, honesty and client-oriented
- code of conduct: the execution is of paramount importance

The Board sets and promotes corporate culture and expects and requires all employees to reinforce. All of our new employees are required to attend orientation and training programs so that they may better understand our corporate culture, structure and policies, learn relevant laws and regulations, and raise their quality awareness. In addition, from time to time, the Company will invite external experts to provide training to our management personnel to improve their relevant knowledge and management skills.

The Board have always been ensuring that the goals, values and strategies made are aligned with the corporate culture, while all Directors take the lead in promoting the development of corporate culture. Please refer to the section headed "Management Discussion and Analysis" for the achievements of the Company during the Reporting Period.

The Company is an active practitioner of the establishment of the national medical institution alliances, and firmly believes in the extremely valuable social benefits generated by the establishment of the medical institution alliances. The Company takes the leading hospitals in various regions as the business centers, and cooperates with nearby medical institutions at all levels to provide customized clinical diagnosis solutions for regional medical institution alliances. Meanwhile, key regional central laboratories and local rapid-response laboratories are established nationwide to create a customer-oriented service mechanism for rapid responses and comprehensive solutions. As a medical service provider, the Company fully promotes technology upgrading, expands the scope of testing, and through industrial integration and independent innovation mode, creates the integration of research, production and service, and the integration of supply, production and service, and solves customers' health needs with high-quality and competitive solutions and services.

Guided by the vision to create a happy life, the Company actively links all medical institutions, medical staff, patients and scientific research groups to achieve the common progress and development of our employees, the society and the environment. The Company has always been practicing and will continue to practice its conducting achievements in the following aspects: (1) establishing and deepening the service network of the national medical institution alliances with the focus on the health needs of numerous patients; (2) establishing an industry ecosystem and becoming a trusted strategic development partner for upstream and downstream and cooperative institutions; and (3) maintaining integrity and stimulating the potential of employees, ensuring the effectiveness of implementation and advocating the sustainable development of employees with a continuously improved the management system and incentive mechanism.

The Board considers that the corporate culture and the purpose values and strategy of the Group are aligned.

CORPORATE GOVERNANCE PRACTICES

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

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

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

The Company regularly reviews its compliance with the Corporate Governance Code and the Board believes that save as disclosed above, the Company was in compliance with all applicable code provisions of the Corporate Governance Code during the Reporting Period.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its securities code to regulate the dealing by the Directors in securities of the Company. Specific enquiries have been made to all Directors and the Directors have confirmed that they complied with the Model Code during the Reporting Period.

The Company's relevant employees, who are likely to be in possession of unpublished price-sensitive information ("**Inside Information**") of the Company, have also been subject to the Model Code for securities transactions. No incident of non-compliance of the Model Code by the relevant employees was noted by the Company during the Reporting Period.

The Company has also established a policy on Inside Information to comply with its obligations under the SFO and the Listing Rules. In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its Directors and relevant employees in advance.

BOARD OF DIRECTORS

The Board currently comprises one executive Director, three non-executive Directors and three independent non-executive Directors.

The composition of the Board is as follows:

Executive Director:

Mr. Zhang Yong *(Chairman of the Board and Chief Executive Officer)*

Non-Executive Directors:

Ms. Huang Luo
Dr. Guo Yunzhao *(resigned on August 30, 2023)*
Dr. Wang Pinghui *(appointed on August 30, 2023)*
Dr. Wang Ruihua

Independent Non-Executive Directors:

Mr. Yu Shiyou
Mr. Yang Hongwei *(resigned on August 30, 2023)*
Mr. Lan Fenghui *(appointed on August 30, 2023)*
Mr. Xie Shaohua

The biographical details of the Directors are set out in the section headed "Board of Directors and Senior Management" on pages 38 to 43 of this annual report.

None of the members of the Board is related (including financial, business, family or other material/relevant relations) to one another.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision C.2.1 of the Corporate Governance Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

The Company does not have separate chairman of the Board and chief executive officer, and Mr. Zhang Yong, the executive Director currently performs these two roles. The Board believes that vesting the roles of both chairman of the Board and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and the chief executive officer of the Company at a time when it is appropriate by taking into account the circumstances of the Group as a whole.

BOARD MEETINGS

Code provision C.5.1 of the Corporate Governance Code stipulates that board meetings should be held at least four times a year at approximately quarterly intervals with active participation of the majority of the Directors, either in person or through electronic means of communication. The Board held six meetings during the Reporting Period.

Attendance record of Directors

A summary of the attendance record of the Directors at Board meetings, committee meetings and general meeting is set out in the following table below:

	Number of meeting(s) attended/number of meeting(s) held during the year ended December 31, 2023				
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**General Meeting**
Executive Director:					
Mr. Zhang Yong	6/6	N/A	4/4	2/2	1/1
Non-executive Directors:					
Ms. Huang Luo	6/6	N/A	N/A	N/A	1/1
Dr. Guo Yunzhao[Note] *(resigned on August 30, 2023)*	3/4	1/2	N/A	N/A	1/1
Dr. Wang Pinghui[Note] *(appointed on August 30, 2023)*	2/2	N/A	N/A	N/A	N/A
Dr. Wang Ruihua	6/6	2/2	N/A	N/A	1/1
Independent Non-executive Directors:					
Mr. Yu Shiyou	5/6	4/4	3/4	2/2	1/1
Mr. Yang Hongwei[Note] *(resigned on August 30, 2023)*	1/4	N/A	N/A	N/A	0/1
Mr. Lan Fenghui[Note] *(appointed on August 30, 2023)*	2/2	N/A	N/A	N/A	N/A
Mr. Xie Shaohua	6/6	4/4	4/4	2/2	1/1

Note: The Director's attendance refers to the number of meetings held during his/her tenure.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

During the Reporting Period and up to the Latest Practicable Date, the Board at all times complied the requirements of Rule 3.10 of the Listing Rules in relation to the appointment of at least three independent non-executive Directors with at least one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company in addition complied with the requirement of Rule 3.10A of the Listing Rules relating to appointing the independent non-executive Directors representing at least one-third of the Board.

The Board has received from each of the independent non-executive Directors a written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers each of them to be independent. Independent non-executive Directors are required to inform the Company if there is any change that may affect his independence.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The procedures and process of appointment, re-election and removal of Directors are laid down in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, identifying and recommending individuals suitably qualified to become Board members, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment of Directors and succession planning for Directors and assessing the independence of independent non-executive Directors.

Code provision B.2 of the Corporate Governance Code stipulates that all directors should be subject to re-election at regular intervals. Code provision B.2.2 of the Corporate Governance Code further states that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Each of the Directors, including non-executive Directors, is appointed for a term of three years and is subject to retirement by rotation once every three years.

Pursuant to Article 16.19 of the Articles of Association, at every annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. In addition, the Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

Accordingly, Mr. Zhang Yong and Mr. Xie Shaohua shall retire by rotation at the AGM and, being eligible, will offer themselves for re-election.

Pursuant to Article 16.2 of the Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the first annual general meeting of the Company after his/her appointment and shall then be eligible for re-election at that meeting. Dr. Wang Pinghui and Mr. Lan Fenghui were appointed by the Board as Directors on August 30, 2023.

Accordingly, Dr. Wang Pinghui and Mr. Lan Fenghui shall retire at the AGM and, being eligible, will offer themselves for re-election pursuant to Article 16.2 of the Articles of Association.

RESPONSIBILITIES OF THE BOARD AND MANAGEMENT

The Board should assume responsibility for leadership and control of the Company, and is collectively accountable and responsible for directing and supervising the Company's affairs.

All of the Directors have full and timely access to all relevant information as well as the advice and services of the joint company secretaries, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each Director is entitled to seek independent professional advice in appropriate circumstances at the Company's expense.

The day-to-day management, administration and operation of the Company are delegated to the senior management. The delegated functions are periodically reviewed. Approval must be obtained from the Board before any significant transaction is entered into.

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee for overseeing particular aspects of the Company's affairs. Each of these committees is established with defined written terms of reference. The terms of reference of the Board committees are available for viewing on the websites of the Company and the Stock Exchange.

Audit Committee

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Company has established the Audit Committee and has formulated its written terms of reference in compliance with the Corporate Governance Code.

The Audit Committee comprises two independent non-executive Directors and one non-executive Director, namely Mr. Xie Shaohua, Mr. Yu Shiyou and Dr. Wang Ruihua. Mr. Xie Shaohua, being the chairman of the committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and the risk management and internal controls system of our Group, review the financial information of our Company, consider issues relating to the external auditor and the appointment, review and approve connected transactions and to advise the Board.

The Audit Committee held four meetings during the Reporting Period, in which the Audit Committee reviewed the Group's audited annual results and financial statements for the year ended December 31, 2022 and unaudited interim results and financial statements for the six months ended June 30, 2023, and approved the re-appointment and resignation of PricewaterhouseCoopers as the Company's auditor for the year ended December 31, 2023 and subsequently the appointment of Mazars as the Company's auditor to fill the casual vacancy following the resignation of PricewaterhouseCoopers on November 17, 2023.

The Group's annual results for the year ended December 31, 2023 have been reviewed by the Audit Committee and audited by the independent auditor of the Company, Mazars.

Remuneration Committee

We have established a remuneration committee in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code. The primary duties of the Remuneration Committee are to review and make recommendations to the Board regarding the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management and the establishment of a formal and transparent procedure for developing policy on such remuneration, and to review and/or approve matters relating to share schemes under Chapter 17 of the Listing Rules. The Remuneration Committee comprises one executive Director and two independent non-executive Directors, namely Mr. Zhang Yong, Mr. Yu Shiyou and Mr. Xie Shaohua. Mr. Yu Shiyou is the chairman of the committee.

The Remuneration Committee held four meetings during the Reporting Period, in which the Remuneration Committee reviewed the remuneration package for Dr. Wang Pinghui and Mr. Lan Fenghui. The Remuneration Committee has reviewed policy and structure for the remuneration of the Directors and senior management of the Company for the year ended December 31, 2023 and the remuneration proposal of the Directors and senior management of the Company for the year ending December 31, 2024. The Remuneration Committee has also reviewed and approved matters relating to the 2022 RSU Scheme.

Nomination Committee

We have established a nomination committee in compliance with the Corporate Governance Code. The primary duties of the Nomination Committee are to review the structure, diversity, size and composition of the Board, assess the independence of the independent non-executive Directors and to make recommendations to our Board regarding the appointment of Directors and Board succession. The Nomination Committee comprises one executive Director and two independent non-executive Directors, namely Mr. Zhang Yong, Mr. Yu Shiyou and Mr. Xie Shaohua. Mr. Zhang Yong is the chairman of the committee.

The Nomination Committee held two meetings during the Reporting Period, in which the Nomination Committee reviewed and advised the Board on (i) the re-appointment of Mr. Yu Shiyou, Mr. Yang Hongwei, Ms. Huang Luo and Dr. Wang Ruihua as Directors and (ii) recommended to the Board the appointment of new Directors, Dr. Wang Pinghui and Mr. Lan Fenghui.

The Nomination Committee has assessed the independence of independent non-executive Directors, recommended the re-appointment of the Directors standing for re-election at the AGM and reviewed the board diversity policy and nomination policy of the Company.

The nomination policy was approved and adopted by the Board for evaluating and selecting any candidate for directorship. The Nomination Committee would consider the following criteria, including, among other things, character and integrity, qualifications (cultural and educational background, professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy (as defined below)), any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and diversity, and willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s).

The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of a new Director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship. The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship with a ranking of the candidates (if applicable) by order of preference based on the needs of the Company and reference check of each candidate.

DIVERSITY POLICY

Board Diversity

In order to enhance the effectiveness of our Board and to maintain the high standard of corporate governance, the Company has adopted the board diversity policy (the "**Board Diversity Policy**"). The Board Diversity Policy has been reviewed by the Board on an annual basis. All the executive and non-executive Directors possess extensive and diversified experience in management and broad industrial experience. The three independent non-executive Directors possess professional knowledge in management, finance and accountancy, respectively with broad and extensive experience in business advisory and management, respectively. A summary of the Board Diversity Policy is set out below:

Purpose

The Board Diversity Policy aims to set out sets out the objective and approach to achieve and maintain diversity of the Board and enable the Board to comply with the Corporate Governance Code.

Board Diversity Policy Statement

Our Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level, including gender diversity, as an essential element in maintaining our Company's competitive advantage and enhancing its ability to attract, retain and motivate employees from the widest possible pool of available talent. The ultimate decision of the appointment will be based on merit and the contribution which the selected candidates will bring to our Board. Our Board would ensure that appropriate balance of gender diversity is achieved with reference to Shareholders' expectation and international and local recommended best practices, with the ultimate goal of bringing our Board to gender parity.

Measurable Objectives

Going forward and with a view to developing a pipeline of potential successors to our Board that may meet the targeted gender diversity ratio set out below, we will (i) make appointments based on merits with reference to board diversity as a whole; (ii) take steps to promote gender diversity at all levels of our Group by recruiting staff of different gender; and (iii) provide career development opportunities and more resources in training female staff with the aim of promoting them to the senior management or board of our Company so that we will have a pipeline of female senior management and potential successors to our Board in a few years' time. The Board is currently of the opinion that it generally meets the diversity requirements under the Listing Rules. Currently, one out of our seven Directors is female, bringing the female representation to 14.3% of the Board.

The Board will review the Board Diversity Policy on a regular basis to ensure its continued effectiveness. The Company has also taken, and will continue to take steps to promote gender diversity at all levels of the Company, including but not limited to the Board and senior management levels. While we recognize that gender diversity at the Board level can be further improved, the Company will keep an eye on female candidates who have extensive work experience in the medical operation service industry, to be the potential successor to the Board. Board appointments will continue to be made on a merit basis and candidates will be considered against objective criteria, with due regard for the benefits of diversity on the Board as a whole. The Board believes that such merit-based appointments will best enable the Company to serve its Shareholders and other stakeholders going forward. The Board will give adequate consideration to the Board Diversity Policy when it identifies suitably qualified candidates to become members of the Board.

The Board currently comprises of seven Directors, including one executive Director, three non-executive Directors and three independent non-executive Directors. Our Directors have a balanced mix of knowledge and skills, including in corporate and financial management, corporate operations and strategic planning, and medical services. We have three independent non-executive Directors with different industry backgrounds, representing more than one third of the members of the Board.

Diversity at Work Force

We strive to provide a platform with equal opportunities for all our employees as we value the experience and knowledge of our senior staff as well as the passion and adaptability of the younger staff. To build a healthy talent pipeline in preparing for the Group's continuous business expansion, we emphasize the importance for our new hires to be selected through robust, fair and transparent recruitment process, based on their merits and their potential. We also believe that unreasonable dismissal under any circumstances is unacceptable and is prohibited at the Group. The causes of dismissal are included but not limiting to, in our employee handbook which stipulated detail list of major offences which we regard as legitimate reason for dismissal.

Our employment profile as at December 31, 2023 is as follows:

Workforce as at December 31, 2023	No. of Headcount	Percentage of Total Headcount
By Gender		
Male	652	43.18%
Female	858	56.82%
By Age Group		
18 – 30 years old	762	50.46%
31 – 50 years old	708	46.89%
over 50 years old	40	2.65%

Our Company is committed to providing all the job applicants and staff with equal opportunities for employment, without tolerance of any discrimination over gender, age, ethnicity, nationality and disability. The Group recruits workforce in strict compliance with local laws and regulations. Moreover, we emphasize the protection of females' rights and interests as part of our management principle and also provide more comfortable and flexible employment arrangements and holiday benefits for our female staff.

The Board is satisfied with the gender diversity of our employees and it expects to reach the diversity at work force at a more balanced level in year 2024.

CORPORATE GOVERNANCE FUNCTION

The Board is responsible for determining corporate governance policy of the Company performing the functions set out in code provisions A.2.1 of the Corporate Governance Code. Such duties have been delegated to the Audit Committee.

The Audit Committee reviewed the Company's corporate governance policies and practices, training and continuous professional development of the Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, and the Company's compliance with the Corporate Governance Code, the Company's code of conduct applicable to its employees and Directors, and disclosure in its Corporate Governance Report.

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The joint company secretaries of the Company may from time to time and as the circumstances required, provide updated written training materials relating to the roles, functions and duties of a director of a company listed on the Stock Exchange.

BOARD INDEPENDENCE

The Company recognizes that Board independence is key to good corporate governance. The Company has in place effective mechanisms that underpin an independent Board and independent views. The current composition of the Board comprises more than one third independent non-executive Directors. The remuneration of independent non-executive Directors is subject to a regular review to maintain competitiveness and commensurate with their responsibilities and workload. The independence of each independent non-executive Director is assessed upon his/her appointment and annually.

Directors are requested to declare their direct or indirect interests, if any, in proposals or transactions to be considered by the Board at the Board meetings and abstain from voting, where appropriate. External independent professional advice is available to all Directors, including independent non-executive Directors, whenever deemed necessary. The independent non-executive Directors have consistently demonstrated strong commitment and the ability to devote sufficient time to discharge their responsibilities at the Board.

The Company has also established channels through formal and informal means whereby independent non-executive Directors can express their views in an open manner, and in a confidential manner, should circumstances requires.

DIVIDEND POLICY

The Board has the discretion to declare and distribute dividends to the Shareholders, subject to the Articles of Association and all applicable laws and regulations. In recommending or declaring the dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value. Dividends may only be declared and paid out of the profits of the Company, realized or unrealized, or from reserves of the Company lawfully available for distribution including share premium. All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed. Any dividend or bonuses unclaimed after a period of six years from the date of declaration shall be forfeited and shall revert to the Company.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2023.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Directors keep abreast of the responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

The Directors are continually provided with information relating to the developments in the legal and regulatory regime and the business and market environments to facilitate the execution of their responsibilities. Continuing briefings and professional development for the Directors were arranged by the Company and its professional advisors.

During the Reporting Period, all the Directors attended trainings in the form of a seminar conducted by the legal advisor of the Company and read relevant training materials which were distributed to them. The training covered topics which include, directors' duties, the disclosure obligations under laws of Hong Kong and other applicable laws, the requirements of notifiable transactions and connected transactions etc. under the Listing Rules.

All new Directors receive a comprehensive, formal and tailored induction upon their appointments to the Board with the key objective of assisting them in understanding their duties and responsibilities for being a Director, the Company's business, risks, governance and Board and committee dynamics.

The Company appointed Dr. Wang Pinghui as non-executive Director and Mr. Lan Fenghui as Independent non-executive Director with effect from August 30, 2023. Each of Dr. Wang and Mr. Lan had on August 30, 2023 obtained legal advice referred to under Rule 3.09D of the Listing Rules from our Hong Kong legal adviser, Zhong Lun Law Firm LLP, a qualified solicitor as regards to the requirement under the Listing Rules that are applicable to them as a director of a listed company and the possible consequences of making a false declaration or giving false information to the Stock Exchange before his appointment became effective. Each of them confirmed that they understood their obligations as a director of a listed company.

AUDITOR'S RESPONSIBILITY AND REMUNERATION

The Company appointed Mazars as the external auditor for the year ended December 31, 2023. A statement issued by Mazars about their reporting responsibilities for the consolidated financial statements is included in the Independent Auditor's Report on pages 89 to 96.

Details of the fees paid/payable in respect of the audit and non-audit services provided by Mazars for the year ended December 31, 2023 are set out in the table below:

Services rendered for the Company	**Fees paid and payable** (RMB'000)
Audit service	2,600
Non-audit service	–
Total	2,600

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The main feature of the Group's risk management and internal control system is its ability to dynamically and effectively capture and evaluate significant emerging risks and risk changes, both quantitatively and qualitatively, and to timely manage risks by appropriate risk responses and mitigation strategies.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives and establishing and maintaining appropriate and effective risk management and internal control systems. The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Board has delegated the Audit Committee with the responsibility to oversee the risk management and internal control systems of the Group on an on-going basis and to review the effectiveness of the systems annually. The review covers all material controls, including financial, operational and compliance controls.

The Group has also established a set of internal control procedures and system and adopted corporate governance practices to facilitate the effectiveness operation of our business. The Group has adopted an information disclosure policy which sets out comprehensive guidelines in respect of handling and dissemination of Inside Information.

The Company is committed to excellence and continual improvement and will continue to encourage innovation while maintaining a low-risk profile. Employees are encouraged to adopt a positive approach to risk management, which further strengthens the risk-aware culture (as opposed to risk-adverse culture) of the Group. Our employee handbook which is accessible to all employees covers policies and procedures related to compensation and dismissal, recruitment and promotion, working hours, rest periods, diversity, anti-discrimination, whistleblowing, benefits and welfare, training and development, anti-corruption and code of conduct. The Company has established (i) in confidence and anonymity, a whistleblowing policy and system for employees and our business partners to address their concerns, and (ii) policies and systems that promote and support anti-corruption laws and regulations. Risk management is incorporated into the strategic and operational processes at all levels within the Group in order to minimize the impact of risk. Opportunities and risks are identified and are proactively assessed and monitored by employees on an on-going basis.

The Group has established an internal audit function to carry out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems. Relevant personnel have been designated to be responsible for identifying and monitoring the Group's risks and internal control issues and reports directly to the Audit Committee of any findings and follow-up actions. Each member of the Group is required to adhere strictly to the Group's internal control procedures and report to the internal audit team of any risks or internal control measures.

The risk management and internal control systems as well as the effectiveness of the internal audit function for the Group was reviewed by the internal consultant of the Company prior to the Company's listing on the Main Board of the Stock Exchange and has been reviewed by the Audit Committee during the Reporting Period. The Board is of the view that the risk management and internal control systems during the Reporting Period are effective and adequate.

Going forward, the Board, to be supported by the Audit Committee as well as the management report and the internal audit findings, will continue to review the effectiveness of the risk management and internal control systems of the Group, including the financial, operational, compliance controls and risk management annually.

Arrangements are in place to facilitate employees of the Group to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Group.

JOINT COMPANY SECRETARIES

Mr. Lin Yingjia, the joint company secretary of the Company, is responsible for advising the Board on corporate governance matters and ensuring that Board policy and procedures, and applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company has also engaged Ms. Chan Lok Yee, a senior manager of the corporate services department of Vistra Corporate Services (HK) Limited, as the joint company secretary to assist Mr. Lin Yingjia in discharging the duties of a company secretary of the Company. Her primary contact person at the Company is Mr. Lin Yingjia, the joint company secretary of the Company.

During the year ended December 31, 2023, Ms. Chan Lok Yee and Mr. Lin Yingjia complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of the relevant professional training during the year.

CHANGES TO DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes of the information of the Directors subsequent to the publication of the interim report of the Company for the six months ended June 30, 2023 are set out below:

Since February 2022, Ms. Huang Luo has been appointed as a director of Guangzhou Darui Biotechnology Co., Ltd. (廣州市達瑞生物技術股份有限公司), the shares of which are listed on the National Equities Exchange and Quotations (stock code: 832705).

Since February 2024, Mr. Yu Shiyou ceased to be an independent non-executive director of CSSC Offshore & Marine Engineering (Group) Company Limited (中船海洋與防務裝備股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600685) and the Stock Exchange (stock code: 00317).

Save as disclosed above, there have been no other changes in the Directors' biographical details which are required to be disclosed in this annual report pursuant to Rule 13.51B(1) of the Listing Rules.

SHAREHOLDERS' RIGHTS

Convening of Extraordinary General Meetings by Shareholders

Pursuant to Article 12.3 of the Articles of Association, the Board may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any one or more Shareholders holding together, at the date of deposit of the requisition, shares representing not less than one-tenth of the voting rights, on a vote per share basis, of the Company which carry the right of voting at the general meetings of the Company.

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Putting Forward Proposals at General Meetings

There are no provisions allowing Shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (as amended from time to time) or the Articles of Association. However, Shareholders who wish to put forward proposals at general meetings may achieve so by means of convening an extraordinary general meeting following the procedures set out in paragraph above.

As regards the procedures for Shareholders to propose a person for election as a Director, they are available on the Company's website at **www.yunkanghealth.com**.

Putting Forward Enquiries to the Board and Contact Details

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Shareholders may send their enquiries and concerns to the Board by addressing them to the principal place of business of the Company in Hong Kong at Room 1901, 19/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong by post with attention to Ms. Chan Lok Yee/Mr. Lin Yingjia, the joint company secretaries or email to **IR@yunkanghealth.com**, for the attention of the joint company secretaries.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavors to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. The Company's previous external auditor attended the last annual general meeting of the Company held on June 28, 2023 and the Company's current external auditor will attend the forthcoming AGM, to answer any questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies applied and its independence. At the forthcoming AGM, Directors (or their delegates as appropriate) will be available to meet Shareholders and answer their enquiries.

The Company adopted the shareholders communication policy, which set out the framework the Company has put in place to promote effective communication with Shareholders so as to enable them to engage actively with the Company and exercise their rights as shareholders in an informed manner. To promote effective communication, the Company maintains a website at **www.yunkanghealth.com**, where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

Having considered the multiple channels of communication and participation, including but not limited to presenting the annual and interim results through online and face-to-face meetings (as the case may be) to communicate with Shareholders, investors and analysts, and providing contact information on the Company's website for effective communication between Shareholders and the Company, the Board is satisfied that the shareholders communication policy provided effective channels by which Shareholders can communicate and raise concern with the Company and is effective.

CHANGES IN CONSTITUTIONAL DOCUMENTS

The Articles of Association was adopted on April 20, 2022 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Act or any other law of the Cayman Islands.

During the Reporting Period, the Company did not make any significant changes to its constitutional documents. A latest version of the Articles of Association is available on the websites of the Company and the Stock Exchange.

GOING CONCERN

There are no material uncertainties relating to events or conditions that cast significant doubt upon the Company's liability to continue as a going concern.

Directors' Report

The Board is pleased to present this report of Directors together with the consolidated financial statements of the Group for the year ended December 31, 2023.

BOARD OF DIRECTORS

The Board currently comprises one executive Director, three non-executive Directors and three independent non-executive Directors.

The Directors during the year ended December 31, 2023 and up to the Latest Practicable Date were:

Executive Director:

Mr. Zhang Yong *(Chairman of the Board and Chief Executive Officer)*

Non-Executive Directors:

Ms. Huang Luo
Dr. Guo Yunzhao *(resigned on August 30, 2023)*
Dr. Wang Pinghui *(appointed on August 30, 2023)*
Dr. Wang Ruihua

Independent Non-Executive Directors:

Mr. Yu Shiyou
Mr. Yang Hongwei *(resigned on August 30, 2023)*
Mr. Lan Fenghui *(appointed on August 30, 2023)*
Mr. Xie Shaohua

GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on July 20, 2018 as an exempted limited liability company under the Companies Act. The Company's Shares were listed on the Main Board of the Stock Exchange on May 18, 2022.

PRINCIPAL ACTIVITIES

We are a comprehensive and professional medical operation service provider in China, which is committed to focusing on the health needs of customers, providing competitive solutions and services, and creating a happy life for the public. We have gradually become a leading medical operation platform through professional medical diagnosis services, strong standardization capabilities, and innovative business model of diagnostic testing services for medical institution alliances.

RESULTS

The results of the Group for the year ended December 31, 2023 are set out in the consolidated statement of comprehensive income on pages 97 to 98 of this annual report.

BUSINESS REVIEW

A fair review of the business of the Group as required by Schedule 5 to the Companies Ordinance, including an analysis of the Group's financial performance and an indication of likely future developments in the Group's business is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. These discussions form part of this Directors' report. The discussion of the Company's key relationships with its employees, suppliers and others that have a significant impact on the Company is set out in the section headed "Relationships with Key Stakeholders" in this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

The following list is a summary of certain principal risks and uncertainties faced by the Group, some of which are beyond its control:

- our financial prospects depends on the success of our service portfolio;
- if we cannot raise sufficient additional capital on acceptable terms while our operating activities put forward higher requirements for cash flow, our business, financial condition and prospects may be adversely affected;
- we face uncertainties in relation to the volume procurement policies in China;
- if we fail to keep up with industry and technology developments in a timely and cost-effective manner, we may be unable to compete effectively and demand for our services may decrease, which in turn may cause our business and prospects to suffer;
- if we cannot compete successfully with our competitors, we may be unable to increase or sustain our revenue or achieve and sustain profitability; and
- our business may be adversely affected by impeding healthcare reforms in China.

However, the above is not an exhaustive list. Investors are advised to make their own judgment or consult their own investment advisors before making any investment in the Shares.

ENVIRONMENTAL POLICIES AND PERFORMANCE

It is our corporate and social responsibility in promoting a sustainable and environmental-friendly environment. We strive to minimize our environmental impact and to build our corporation in a sustainable way.

We are subject to environmental protection and occupational health and safety laws and regulations in China. During the Reporting Period, we complied with the relevant environmental and occupational health and safety laws and regulations in China and we did not have any incidents or complaints, which had a material and adverse effect on our business, financial condition or results of operations. Please refer to the "Environmental, Social and Governance Report" of the Company for the year ended December 31, 2023 for details.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board and management are aware, the Group has complied in all material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the Reporting Period, there was no material breach of, or non-compliance with, applicable laws and regulations by the Group.

EMPLOYEE AND REMUNERATION POLICIES

As at December 31, 2023, the Group had 1,510 employees (as at December 31, 2022: 2,605). The number of employees employed by the Group varies from time to time depending on need. The remuneration package of our employees includes salary and bonus, which are generally determined by their qualifications, industry experience, position and performance. The Group makes contributions to social insurance and housing provident funds as required by the PRC laws and regulations. Apart from offering a competitive remuneration and benefits package, the Group provides corporate and vocational training to its employees according to the training and development policy of the Group.

The Company has adopted the 2022 RSU Scheme to attract, retain and incentivize the key personnel and partners of the Company, and to promote the value of the Company by offering these individuals an opportunity to acquire the Shares and a proprietary interest in the success of the Company. Please refer to the section headed "2022 RSU Scheme" in this annual report for further details.

The total remuneration cost incurred by the Group for the year ended December 31, 2023 was RMB299.7 million, as compared to RMB518.6 million for the year ended December 31, 2022.

During the Reporting Period, the Group did not experience any material labor disputes or strikes that may have a material and adverse effect on our business, financial condition or results of operations, or any difficulty in recruiting employees.

MAJOR SUPPLIERS AND PROCUREMENT

For the year ended December 31, 2023, our major suppliers primarily consisted of suppliers of testing kits, raw materials, machinery and equipment, labor outsourcing service provider and third-party marketing service providers. In addition, we also engage certain third-party laboratories as subcontractors to outsource a small portion of our testing services. The main purpose is to ensure the efficiency of our testing services and to save costs because it is time consuming and costly to build up a technology platform for a small portion of test samples.

For the years ended December 31, 2022 and 2023, we engaged 55 and 59 subcontractors, respectively, and have maintained stable business relationships with our subcontractors with an average of approximately five years cooperation. We have maintained stable business relationships with our major suppliers for over five years on average.

For the years ended December 31, 2022 and 2023, Da An Gene Group, our connected person was our largest supplier. Our purchase amounts from Da An Gene Group were RMB580.0 million and RMB34.7 million for the years ended December 31, 2022 and 2023, respectively, representing 20.4% and 5.7% of our total purchases for the same period, respectively. The decrease in purchases from Da An Gene Group in 2023 was primarily because of the decreasing amount of reagents and consumables we purchased from Da An Gene Group in 2023 mainly due to the fading demand for national interim testing and screening in 2023.

During the Reporting Period, our purchase amount from our five largest suppliers amounted to RMB106.9 million (2022: RMB795.5 million), accounting for approximately 17.4% (2022: 28.0%) of our total purchases.

Save for Da An Gene, as at the Latest Practicable Date, none of our Directors, their respective close associates, or any Shareholder who, to the knowledge of the Directors, owns more than 5% of the Company's issued shares, has any interest in any of the Group's five largest suppliers.

For the year ended December 31, 2023, one of the Group's subcontractors brought legal proceedings against the Group, please refer to the disclosure under the paragraph of contingent liabilities.

MAJOR CUSTOMERS

For the year ended December 31, 2023, our customers primarily consisted of the CDC, hospitals, community health clinics and other medical institutions (such as woman's and children's dispensaries, township health center and village clinics), as well as financial institutions and high net worth individuals. During the Reporting Period, a significant number of our customers were located in Guangdong province, accounting for 56.5% of our total customers for the year ended December 31, 2023.

During the Reporting Period, our revenue generated from our five largest customers accounted for less than 20% of our total revenue.

As at the Latest Practicable Date, none of the Directors, their respective close associates, or any Shareholder who, to the knowledge of the Directors, owns more than 5% of the Company's issued shares, has any interest in any of the Group's five largest customers.

For the year ended December 31, 2023, we did not experience any significant disputes with our customers.

KEY RELATIONSHIPS WITH STAKEHOLDERS

The Group recognizes that various stakeholders including suppliers, subcontractors, employees, Shareholders and other business associates are key to Group's success. The Group strives to achieve corporate sustainability through engaging, collaborating, and cultivating strong relationship with them.

Relationship with Our Employees

We endeavor to cultivate talented and loyal employees by treating our employees with dignity, respect and fairness. We recruit our personnel primarily through recruiting websites, recruiters and job fairs. We enter into employment contracts with our employees to cover matters such as wages, benefits and grounds for termination. We make contributions to social insurance and housing provident funds as required by the PRC laws and regulations.

All of our new employees are required to attend orientation and training programs so that they may better understand our corporate culture, structure and policies, learn relevant laws and regulations, and raise their quality awareness. In addition, from time to time, we invite external experts to provide training to our management personnel to improve their relevant knowledge and management skills. We have established a labor union that represents employee with respect to the promulgation of the Articles of Association and internal protocols.

Relationship with Customers, Suppliers and Subcontractors

We have been devoted to properly maintaining our relationships with our customers, suppliers and subcontractors, which is crucial for us to achieving market acceptance among hospitals, other medical institutions, financial institutions, physicians and patients and developing and expanding our business.

Relationship with Shareholders

We recognize the importance of protecting the interests of the Shareholders and of having effective communication with them. We believe communication with the Shareholders is a two-way process and have thrived to ensure the quality and effectiveness of information disclosure, maintain regular dialogue with the Shareholders and listen carefully to the views and feedback from the Shareholders. This has been done through general meetings, corporate communications, annual reports and results announcements.

FINANCIAL SUMMARY

A summary of the audited consolidated results and the assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements, is set out on page 180 of this annual report. This summary does not form part of the audited consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to the existing Shareholders.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 31 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property and equipment of the Company and the Group for the year ended December 31, 2023 are set out in Note 13 to the consolidated financial statements.

SHARE CAPITAL AND SHARES ISSUED

Details of movements in the share capital of the Company for the year ended December 31, 2023 and details of the Shares issued for the year ended December 31, 2023 are set out in Note 23 to the consolidated financial statements.

DONATION

For the year ended December 31, 2023, the Group donated a batch of equipment to schools and medical institutions with a net book value of nil according to the accounting policy (2022: RMB0.5 million).

DEBENTURE ISSUED

The Group did not issue any debenture for the year ended December 31, 2023.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Group, or existed for the year ended December 31, 2023.

PERMITTED INDEMNITY

Pursuant to the Articles of Association and subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices, in which judgment is given in his/her favor, or in which he/she is acquitted.

Such permitted indemnity provision has been in force for the year ended December 31, 2023. The Company has taken out liability insurance to provide appropriate coverage for the Directors.

DISTRIBUTABLE RESERVES

The Company may pay dividends out of the share premium account, retained earnings and any other reserves provided that immediately following the payment of such dividends, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. As at December 31, 2023, the Company had no distributable reserves arising from retained earnings and other reserves, while the Company had share premium amounting to RMB432.8 million (2022: RMB743.2 million).

Details of movements in the reserves of the Group and the Company during the year ended December 31, 2023 are set out in the consolidated statement of changes in equity on page 101 and notes 23(a), 23(b) and 30(a) of this annual report respectively.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at December 31, 2023 are set out in the section headed "Management Discussion and Analysis" in this annual report and Note 26 to the consolidated financial statements.

CONVERTIBLE BONDS

As at the Latest Practicable Date, the Company has not issued any convertible bonds.

LOAN AGREEMENTS WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDERS

As at the date of this annual report, the Company has not entered into any loan agreement which contains covenants requiring specific performance of the Controlling Shareholders that is required to be disclosed under Rule 13.18 of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

Executive Director, Mr. Zhang Yong entered into a service contract with the Company for an initial term commencing from the date of his appointment as a Director and continuing for three years after or until the third annual general meeting of the Company since the Listing Date, whichever is earlier, and shall be terminable by either party giving no less than 30 days notice in writing to the other. Save for the above, each of the non-executive and independent non-executive Directors has entered into an appointment letter with the Company, which commenced from their respective date of appointment for a three-year initial term from the date of his/her appointment and shall be terminable by either party giving no less than three-month notice in writing to the other.

The above appointments are always subject to the provisions of retirement and rotation of Directors under the Articles of Association.

None of the Directors has an unexpired service contract or appointment letter which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the Note 32 to the consolidated financial statements, none of the Directors nor any entity connected with the Directors had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the year ended December 31, 2023.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

One of our Controlling Shareholders, Da An Gene, together with its subsidiaries, has undertaken to us in the Non-competition Undertaking that, during the effective period of the Non-competition Undertaking, Da An Gene Group shall not directly or indirectly be involved in or undertake any business (other than our business) that directly or indirectly competes, or may compete, with any business engaged by any member of our Group, or hold interest in any companies or business that compete directly or indirectly with the business currently or from time to time engaged in by our Group. For further details, please refer to the section headed "Relationship with our Controlling Shareholders – Non-competition Undertaking from Da An Gene Group" of the Prospectus.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

Save as disclosed in the Prospectus and save for their respective interests in the Group, none of the Directors and the Controlling Shareholders was interested in any business which competes or is likely to compete with the businesses of the Group for the year ended December 31, 2023.

The Da An Gene Group has confirmed to our Company of its compliance with the provisions of the Non-competition Undertaking. The independent non-executive Directors have reviewed the status of the compliance with the Non-competition Undertaking, and were satisfied that the Da An Gene Group have duly complied with the Non-competition Undertaking.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed for the year ended December 31, 2023.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at December 31, 2023, the interests and short positions of the Directors and chief executives of our Company and their associates in any of the Shares, underlying Shares and debentures of our Company or its associated corporation (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(i) Interests in the Company

Name of Director	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding in the total issued Shares(2)
Mr. Zhang Yong *(executive Director and chief executive officer)*	Interested in a controlled corporation	250,108,000(1) (L)	40.25%

(L) denotes a long position

Notes:

(1) These Shares are directly held by YK Development, which is held as to 64.04% and controlled by Huizekx Limited, which is wholly-owned by Mr. Zhang. Therefore, Huizekx Limited and Mr. Zhang are deemed to be interested in the Shares held by YK Development under the SFO. On November 18, 2022, YK Development pledged 181,108,000 Shares ("**Pledged Shares**") to China Construction Bank (Asia) Corporation Limited in favor of SPDB International (Hong Kong) Limited. On November 29, 2022, YK Development pledged 60,614,780 Shares, being part of the Pledged Shares directly to SPBD Guangzhou Wuyang Branch.

(2) The calculation is based on the total number of 621,250,500 Shares in issue as at December 31, 2023.

(ii) Interest in associated corporations of the Company

Name of Director/ chief executive	Name of associated corporation	Capacity/ nature of interest	Number of shares in the associated corporation interested	Approximate percentage of shareholding in the associated corporation
Mr. Zhang Yong	Huizekx Limited	Beneficial owner	1 (L)	100.00%
Mr. Zhang Yong	YK Development	Interested in a controlled corporation	3,203,250 (L)	64.04%

(L) denotes a long position

Save as disclosed above, as at December 31, 2023, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO); or which would be required to be recorded in the register to be kept by the Company pursuant to Section 352 of the SFO, or which would be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at December 31, 2023, so far as the Directors are aware, the followings are the persons, other than the Directors or chief executives of the Company, who had interests or short positions in the Shares and underlying Shares which would be required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO; or as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Name of substantial Shareholders	Capacity/nature of interest	Number of Shares	Approximate percentage of shareholding in the total issued Shares[5]
Huizekx Limited[1]	Interested in a controlled corporation	250,108,000 (L)	40.25%
Mouduans Limited[2]	Interested in a controlled corporation	250,108,000 (L)	40.25%
Tongfuzc Limited[2]	Interested in a controlled corporation	250,108,000 (L)	40.25%
WJJR Investment Limited[2]	Interested in a controlled corporation	250,108,000 (L)	40.25%
Jin Jun Ying Limited[2]	Interested in a controlled corporation	250,108,000 (L)	40.25%
Source Capital RW Limited[2]	Interested in a controlled corporation	250,108,000 (L)	40.25%
YK Development[1]	Beneficial owner	250,108,000 (L)	40.25%
Da An Gene[3]	Interested in a controlled corporation	209,783,000 (L)	33.76%
Guangzhou Daan Gene Technology[3]	Interested in a controlled corporation	209,783,000 (L)	33.76%
Daan International[3]	Beneficial owner	209,783,000 (L)	33.76%
Shanghai Pudong Development Bank Co., Ltd[4]	Interested in a controlled corporation	181,108,000 (L)	29.15%
SPDB International Holdings Limited[4]	Interested in a controlled corporation	120,493,220 (L)	19.39%
SPDB International (Hong Kong) Limited[4]	Person having a security interest in shares	120,493,220 (L)	19.39%
SPBD Guangzhou Wuyang Branch[4]	Person having a security interest in shares	60,614,780 (L)	9.75%

(L) denotes a long position

Notes:

(1) YK Development is held as to 64.04% and controlled by Huizekx Limited, which is wholly-owned by Mr. Zhang Yong. Therefore, Huizekx Limited is deemed to be interested in the Shares held by YK Development under the SFO. On November 18, 2022, YK Development pledged 181,108,000 Shares ("**Pledged Shares**") to China Construction Bank (Asia) Corporation Limited in favor of SPDB International (Hong Kong) Limited. On November 29, 2022, YK Development pledged 60,614,780 Shares, being part of the Pledged Shares, directly to SPBD Guangzhou Wuyang Branch.

(2) YK Development is held as to approximately 23.47%, 6.95%, 3.04%, 0.50% and 2.00%, by Mouduans Limited, Tongfuzc Limited, WJJR Investment Limited, Jin Jun Ying Limited and Source Capital RW Limited, respectively. Pursuant to Guidance Letter HKEX GL89-16, Huizekx Limited, Mouduans Limited, Tongfuzc Limited, WJJR Investment Limited, Jin Jun Ying Limited, Source Capital RW Limited and YK Development are a group of Controlling Shareholders of the Company.

(3) Daan International is wholly-owned by Guangzhou Daan Gene Technology, a company wholly-owned by Da An Gene. Therefore, Guangzhou Daan Gene Technology and Da An Gene is deemed to be interested in the Shares held by Daan International under the SFO.

(4) SPDB International (Hong Kong) Limited is directly wholly owned by SPDB International Holdings Limited, which in turn is wholly owned by Shanghai Pudong Development Bank Co., Ltd. SPBD Guangzhou Wuyang Branch is ultimately wholly owned by Shanghai Pudong Development Bank Co., Ltd. Therefore, Shanghai Pudong Development Bank Co., Ltd is deemed to be interested in the interests held by SPDB International (Hong Kong) Limited and SPBD Guangzhou Wuyang Branch. On November 18, 2022, YK Development pledged 181,108,000 Shares to China Construction Bank (Asia) Corporation Limited in favor of SPDB International (Hong Kong) Limited, among which 60,614,780 Shares was pledged directly to SPDB Guangzhou Wuyang Branch on November 29, 2022.

(5) The calculation is based on the total number of 621,250,500 Shares in issue as at December 31, 2023.

Save as disclosed above, as at December 31, 2023, the Directors and chief executives of the Company are not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would be required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO; or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

2022 RSU SCHEME

On November 23, 2022 (the "**Adoption Date**"), the 2022 RSU Scheme was approved and adopted by the Company. Further details of the 2022 RSU Scheme are set out in the Company's announcements dated November 23, 2022 and July 28, 2023.

A summary of the principal terms of the 2022 RSU Scheme is set out below:

1. Purposes of the 2022 RSU Scheme

The purpose of the 2022 RSU Scheme is to attract, retain and incentivize the key personnel and partners of the Company, and to promote the value of the Company by offering these individuals an opportunity to acquire Shares and a proprietary interest in the success of the Company, thereby linking their interests with the Company's performance.

2. **Selected Participants in the 2022 RSU Scheme**

Selected participants (the "**Selected Participant(s)**") of the 2022 RSU Scheme include the following:

(1) any full-time or part-time employee of the Group;

(2) customers, suppliers, agents, partners, or consultants of the Group; and

(3) other persons identified by the Board as an Selected Participant.

The Board may in its sole and absolute discretion select any Selected Participant and determine the restricted share units (the "**RSUs**") for each of them.

3. **Total number of Shares under the 2022 RSU Scheme**

The Board may determine the number of Shares to be purchased as the underlying shares (the "**Underlying Shares**"), and cause to be paid the purchase price for the Underlying Shares and the related expenses to the trustee appointed by the Company for the administration of the RSU Scheme (the "**Trustee**"), who will purchase the Underlying Shares. The Trustee shall apply the entire amount without deduction (except for transaction levy, stamp duty and other statutory fees) towards the purchase of Shares at the prevailing market price or at a price within a specific price range determined in the sole discretion of the Board. Once purchased, the Underlying Shares are to be held by the Trustee for the awards under the 2022 RSU Scheme.

Pursuant to the 2022 RSU Scheme, the Underlying Shares will be satisfied by the existing Shares to be acquired by the Trustee on the market. As no new Shares will be issued under the 2022 RSU Scheme, the operation of the 2022 RSU Scheme is not expected to have a dilutive impact to the Shareholders.

On July 28, 2023, the Board resolved to increase the maximum number of Shares that can be awarded under the 2022 RSU Scheme from 3% to 10% of the issued Shares of the Company as at November 23, 2022, being 62,125,050 Shares, representing 10% of the issued Shares of the Company as at the Latest Practicable Date. For more details, please refer to the announcement of the Company dated July 28, 2023.

As at 31 December 2023, the Company had not granted any restricted share units ("**RSUs**") under the 2022 RSU Scheme. On January 23, 2024, the Company granted a total of 15,101,500 RSUs to Selected Participants under the 2022 RSU Scheme, of which none of the RSUs had vested or lapsed as at the Latest Practicable Date. None of the grantees of the RSUs are Directors or core connected person(s) of the Company.

As at the Latest Practicable Date, the total number of RSUs available for grant under the 2022 RSU Scheme was 47,023,550 Shares (including RSUs that have lapsed, if any, and are available for re-granting), representing approximately 7.57% of the Shares in issue (i.e. 621,250,500 Shares) as at the Latest Practicable Date.

As at the Latest Practicable Date, the Trustee held 20,163,111 Shares under the 2022 RSU Scheme, representing approximately 3.25% of the total issued Shares of the Company on the same date.

4. Maximum entitlement of each RSU participant

The maximum entitlement of each participant of the 2022 RSU Scheme shall not exceed the limits as required under the Listing Rule.

5. Vesting

The Board will set vesting criteria in its discretion, which, depending on the extent to which the criteria are met, will determine the number of RSUs that will be paid-out to the Selected Participant(s). The Board may set vesting criteria based upon the Company's achievements and individual goals, or any other basis determined by the Board in its discretion. The vesting schedules are stipulated in the respective written or electronic agreement(s) (the "**Award Agreement(s)**") between the Company and the Selected Participant(s). Unvested RSUs will automatically expire if the RSUs are not fully vested according to the vesting schedules due to Selected Participants failing to meet the vesting criteria or for other reasons.

6. Acceptance of RSUs

If a Selected Participant signs the Award Agreement within 28 days, it will be deemed to have accepted the grant of RSUs, and the number of RSUs stated in the Award Agreement will be deemed to have been granted. The amount, if any, payable on acceptance of the RSUs shall be stipulated in the Award Agreement.

7. Basis of determining the purchase price of RSUs awarded

The purchase price of RSUs awarded under the 2022 RSU Scheme shall be determined at the sole discretion of the Board and stipulated in the Award Agreement.

8. Remaining life

Unless terminated earlier by the Company in accordance with the rules of the 2022 RSU Scheme, the 2022 RSU Scheme is valid and effective for a term of 10 years commencing from the Adoption Date. The 2022 RSU Scheme may be terminated by ordinary resolution of the general meeting or by resolution of the Board. Upon termination, (i) no further grant of RSUs may be made under the 2022 RSU Scheme; and (ii) the Awards granted prior to such termination shall continue to be valid.

As at the Latest Practicable Date, the remaining life of the 2022 RSU Scheme is approximately eight years and seven months.

Details of movements in the RSUs granted under the 2022 RSU Scheme after the Reporting Period and up to the Latest Practicable Date are as follows:

								After the Reporting Period and up to the Latest Practicable Date					
Category/name of grantee	Date of grant	Closing price of Shares immediately before the date on which the RSUs were granted (HK$)	Vesting period	Weighted average closing price of Shares immediately before the vesting date (HK$)	Purchase price (per Share) (HK$)	Performance target	Unvested as at January 1, 2024	Granted	Vested	Lapsed	Cancelled	Unvested as at the Latest Practicable Date	Fair value of RSUs at the date of grant (HK$) *(Note 2)*
Five highest paid individuals during the Reporting Period in aggregate	January 23, 2024	11.22	6 years	N/A	0	Note 1	0	580,000	0	0	0	580,000	6,519,200
Employees in aggregate	January 23, 2024	11.22	6 years	N/A	0	Note 1	0	14,521,500	0	0	0	14,521,500	163,221,660
Total							**0**	**15,101,500**	**0**	**0**	**0**	**15,101,500**	**169,740,860**

Notes:

(1) The vesting of the RSUs shall be subject to the grantee meeting the performance targets to be determined by the Company from time to time. The Company has established an appraisal mechanism to assess the fulfillment of performance targets by the grantee. The appraisal mechanism uses a grading system based on a matrix of qualitative and quantitative indicators that vary according to the roles and responsibilities of the grantee. The indicators include, but are not limited to, measures of work quality, efficiency, collaboration, management and strategy. The scoring system evaluates the grantee's regular duties and the strategic objectives or tasks assigned for the appraisal period. The Company intends to make reference to this appraisal mechanism to set and review the performance targets of the grantees periodically.

(2) There were no shares granted under the 2022 RSU Scheme during the Reporting Period. Subsequent to the end of the Reporting Period, 15,101,500 shares were granted to employees of the Group with a vesting period of 6 years from the grant date. Further details of the 2022 RSU Scheme are set out in Note 23(b) to the consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this report, at no time during the Reporting Period was the Company or any of its subsidiaries, a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of the Shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

EMOLUMENT POLICY AND DIRECTORS' REMUNERATION

In compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code, the Company has established the Remuneration Committee to formulate remuneration policies. The remuneration is determined and recommended based on each Director's and senior management personnel's qualification, position and seniority. As for the independent non-executive Directors, their remuneration is determined by the Board upon recommendation from the Remuneration Committee.

Details of the remuneration of the Directors, senior management and the five highest paid individuals are set out in Note 32 and Note 9, respectively to the consolidated financial statements.

The remuneration of the members of senior management by band for the year ended December 31, 2023 is set out below:

Remuneration bands (HKD)	No. of person(s)
500,001-1,000,000	4
0-500,000	1
Total	5

None of the Directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

For the year ended December 31, 2023, none of the Directors were paid any discretionary bonus.

CONNECTED TRANSACTIONS

Among the related party transactions disclosed in Note 29 to the consolidated financial statements, the following transactions constitute connected transactions for the Company under Rule 14A.23 of the Listing Rules and are required to be disclosed in this annual report in accordance with Rule 14A.71 of the Listing Rules. Please see below the information required to be disclosed in compliance with Chapter 14A of the Listing Rules.

The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, we have entered into the following continuing connected transaction pursuant to the Chapter 14A of the Listing Rules.

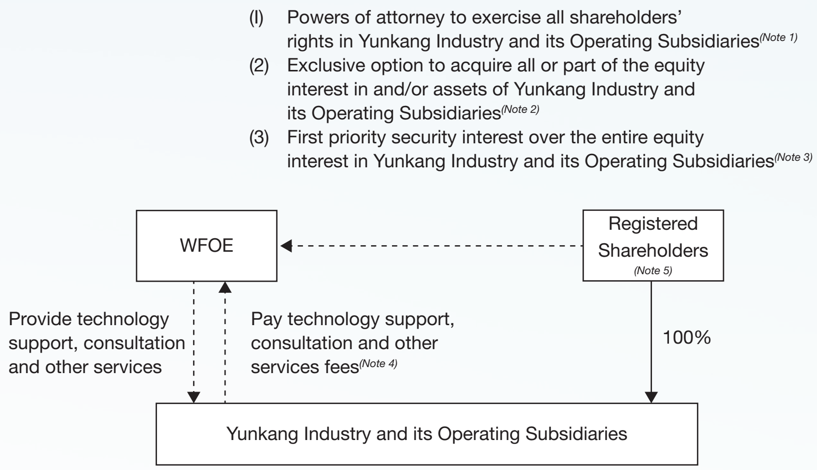
Contractual Arrangements

Overview

We are engaged in the provision of clinical genetic testing service and medical outpatient service. Under the applicable PRC laws and regulations, foreign investors are (i) prohibited from holding equity interest in any enterprise that are engaged in the development and application of gene diagnosis and treatment technology, which form part of our clinical genetic testing service, and (ii) are restricted from holding equity interest in any enterprise that are engaged in medical outpatient service. As a result, we are not able to acquire and hold the equity interest in our Consolidated Affiliated Entities under the applicable PRC laws and regulations. Besides, Yunkang Industry holds an ICP license for value-added telecommunications service. Under the applicable PRC laws and regulations, foreign investors are not allowed to hold more than 50% of the equity interests in an enterprise providing value-added telecommunications service. For further details of the limitations on foreign ownership in PRC companies conducting the aforementioned business under PRC laws and regulations, please see the section headed "Regulations" in the Prospectus. Yunkang Industry did not provide commercial value-added telecommunication service during the Reporting Period. It plans to provide communication technology enabling remote diagnosis and treatment activities between medical institutions and other commercial internet information services to third parties with fee charge for such platform service in the future.

In order to comply with the relevant PRC laws and regulations, we entered into a series of Contractual Arrangements with Yunkang Industry and its Registered Shareholders on October 22, 2019 which were restated and amended on December 29, 2020 and February 24, 2021. The underlying operating subsidiaries (the "**Operating Subsidiaries**") of Yunkang Industry became parties of the Contractual Arrangements on February 4, 2022. Pursuant to the Contractual Arrangements we acquired effective control over the Consolidated Affiliated Entities and consolidated the results of the Consolidated Affiliated Entities.

The following simplified diagram illustrates the flow of economic benefits from the Consolidated Affiliated Entities to our Group stipulated under the Contractual Arrangements:



"——►" denotes direct legal and beneficial ownership in the equity interest

"- - - ►" denotes contractual relationship

Notes:

(1) Please refer to the section headed "Shareholders' Voting Rights Entrustment Agreement" below for details.

(2) Please refer to section headed "Exclusive Option Agreement" below for details.

(3) Please refer to the section headed "Equity Pledge Agreement" below for details.

(4) Please refer to the section headed "Exclusive Consultancy and Service Agreement" below for details.

(5) As at the Latest Practicable Date, the Registered Shareholders are the following persons who together hold the 100% equity interest of Yunkang Industry:

Shareholders	Registered Capital (RMB)	Approximate percentage of shareholding
Da An Gene	432,000,280	46.96%
Gaoxin Yangguang	303,899,320	33.03%
Mouduanshan	107,999,840	11.74%
Tongfu Zhongchuang	32,000,360	3.48%
Guangzhou Huigang	13,999,640	1.52%
Guangzhou Anjianxin	9,600,200	1.04%
Heyuan Rongwei	9,200,000	1.00%
Guangzhou Guoju Venture Capital Co., Ltd.	8,000,320	0.87%
Mr. Lan Fu	2,300,000	0.25%
Yujiang Anjin	1,000,040	0.11%

Summary of the Material Terms of the Contractual Arrangements

A brief description of the specific agreements that comprise the Contractual Arrangements is set out below. For details of the specific agreements, please refer to the section headed "Contractual Arrangements" in the Prospectus.

(1) Exclusive Consultancy and Service Agreement

Under the exclusive consultancy and service agreement between Yunkang Industry and the WFOE on October 22, 2019 and amended on February 24, 2021 and the exclusive consultancy and service agreement between the WFOE and the Operating Subsidiaries of Yunkang Industry on February 4, 2022 (collectively, the "**Exclusive Consultancy and Service Agreements**"), Yunkang Industry and its Operating Subsidiaries agreed to engage the WFOE as their exclusive provider to provide technology support, consultation and other services within the business scope of Yunkang Industry and its Operating Subsidiaries. In addition, pursuant to the Exclusive Consultancy and Service Agreements, without the prior written approval from the WFOE, Yunkang Industry and its Operating Subsidiaries shall not accept the same or any similar services provided by any third party and shall not, establish cooperation relationships similar to that formed by the Exclusive Consultancy and Service Agreements with any third party. The Exclusive Consultancy and Service Agreements also provides that all intellectual property rights generated, developed or created during the performance of the Exclusive Consultancy and Service Agreements belong to the WFOE.

(2) Exclusive Option Agreement

Under the exclusive option agreement on October 22, 2019 and amended on December 29, 2020 and February 24, 2021 among the WFOE, Yunkang Industry and the Registered Shareholders and the exclusive option agreement among WFOE, Yunkang Industry and its Operating Subsidiaries on February 4, 2022 (collectively, the "**Exclusive Option Agreements**"), WFOE has been granted an irrevocable, unconditional and exclusive right to require the Registered Shareholders and Yunkang Industry to transfer any or all of their equity interests in Yunkang Industry and its Operating Subsidiaries, respectively, to the WFOE and/or its designated third party, in whole or in part at any time and from time to time.

(3) Equity Pledge Agreement

Under the equity pledge agreement on October 22, 2019 and amended on December 29, 2020 and February 24, 2021 among the WFOE, Yunkang Industry and the Registered Shareholders, each of the Registered Shareholders agreed to pledge all of their respective equity interests in Yunkang Industry to the WFOE as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts under the Contractual Arrangements. Further, on February 4, 2022, WFOE, Yunkang Industry and its Operating Subsidiaries also entered into the equity pledge agreement (collectively, the "**Equity Pledge Agreements**"), pursuant to which Yunkang Industry, Chengdu Daan and Guangzhou Daan agreed to pledge to the WFOE their equity interests in the registered capital of the Operating Subsidiaries.

The registration of the pledge of equity interest in Yunkang Industry has been completed as at May 2021 in accordance with the terms of the Equity Pledge Agreements and the applicable PRC laws and regulations. As at the Latest Practicable Date, Operating Subsidiaries, except for Yunkang Lingnan, have completed the registration of the pledge of their corresponding equity interest. On March 17, 2022, the Investment Promotion Bureau issued the "Reply Letter on Matters Concerning the Pledge of the Equity Interest in Yunkang Lingnan", which believes that the pledge of the equity interest in Yunkang Lingnan violates the Investment Agreement (as defined in the section headed "Contractual Arrangements" in the Prospectus). Thus, Yunkang Industry was not able to complete the registration process of the pledge of the equity interest in Yunkang Lingnan to the WFOE to avoid the violation of the Investment Agreement. As confirmed by our PRC Legal Advisers, the failure of registration process will not influence the validity and enforceability of the Contractual Agreements and our Directors are of the view that it does not have any material impact on the Group's finance and business operations.

(4) Shareholders' Voting Rights Entrustment Agreement

Under the restated and amended shareholders' voting rights entrustment agreement among each of Yunkang Industry, the Registered Shareholders and WFOE on October 22, 2019 and amended on December 29, 2020 and February 24, 2021 and the shareholders' voting rights entrustment agreement among WFOE, Yunkang Industry and its Operating Subsidiaries on February 4, 2022 (collectively, the "**Shareholders' Voting Rights Entrustment Agreements**"), each of the Registered Shareholders and Yunkang Industry irrevocably, unconditionally and exclusively appointed the persons designated by the WFOE as its attorneys-in-fact to exercise on his/her/its behalf, any and all shareholder's right that he/she/it has in respect of its equity interests in Yunkang Industry and its Operating Subsidiaries, respectively.

(5) Shareholders' Powers of Attorney

Pursuant to the restated and amended Shareholders' Powers of Attorney dated February 24, 2021 and executed by the Registered Shareholders in favor of the Directors, their successors (including a liquidator replacing the Directors) and the WFOE, each of the Registered Shareholders irrevocably authorized and appointed the WFOE, as his/her/its agent to act on his/her/its behalf to exercise or delegate the exercise of all his/her/its rights as shareholders of Yunkang Industry. Pursuant to the Shareholders' Powers of Attorney dated February 4, 2022 and executed by Yunkang Industry and the WFOE, Yunkang Industry irrevocably authorized and appointed the WFOE, as its agent to act on its behalf to exercise or delegate the exercise of all its rights as shareholder of its Operating Subsidiaries.

(6) Spouse Undertakings

The spouse of the individual Registered Shareholder, namely, Mr. Lan Fu, has signed an undertaking to the effect that: (i) his spouse has full knowledge of the entering into of the Contractual Arrangements by WFOE, the Registered Shareholders and Yunkang Industry; (ii) the equity interest of Yunkang Industry held by Mr. Lan Fu do not fall within the scope of communal properties in case of divorce; (iii) at any time, the spouse shall not take any actions against the disposal of such interests and shall not make any claim relating to such interests; and (iv) the performance, amendment or termination of the Contractual Arrangements does not require consent from the spouse.

In addition, the spouse of each of the ultimate beneficial owners or controllers of Gaoxin Yangguang, Mouduanshan, Tongfu Zhongchuang, Guangzhou Huigang, Yujiang Anjin and Guangzhou Anjianxin, where appropriate, has entered into an undertaking to the effect that: (i) the respective spouse has full knowledge of the entering into of the Contractual Arrangements by WFOE, the Registered Shareholders and Yunkang Industry; (ii) the performance, amendment or termination of the Contractual Arrangements does not require consent from the spouse; (iii) if he/she is transferred any shares, directly or indirectly, he/she will be bound by the Contractual Arrangements and will sign all necessary documents and to take all necessary actions to ensure the Contractual Arrangements are properly performed.

Business Activities of Consolidated Affiliated Entities

Our Consolidated Affiliated Entities include (i) Yunkang Industry and its subsidiaries; and (ii) Guangzhou Clinic. We do not directly own 100% equity interest in the Consolidated Affiliated Entities. Yunkang Industry is currently held by the Registered Shareholders. Guangzhou Clinic is currently held by Guangzhou Yunkang as to 70% and by Yunkang Industry by 30%.

Consolidated Affiliated Entities	**Principal Business**	**Basis to be controlled through the Contractual Arrangements**
Yunkang Industry	Planning to conduct commercial value-added telecommunication service	According to the 2021 Negative List, foreign investment is restricted for the companies engaged in commercial value-added telecommunication service
	Holding company of the Consolidated Affiliated Entities that are engaged in clinical genetic testing service	According to the 2021 Negative List, foreign investment is prohibited for the companies engaged in development and application of gene diagnosis and treatment technology, which forms part of clinical genetic testing

Consolidated Affiliated Entities	Principal Business	Basis to be controlled through the Contractual Arrangements
Guangzhou Daan, Chengdu Daan, Jiangxi Yunkang Daan Medical Laboratory Co., Ltd., Shanghai Daan, Hefei Daan Medical Laboratory Co., Ltd. and Kunming Gaoxin Daan Medical Laboratory Co., Ltd.	Diagnostic testing services including clinical genetic testing service	According to the 2021 Negative List, foreign investment is prohibited for the companies engaged in development and application of gene diagnosis and treatment technology, which forms part of clinical genetic testing
Guangxi Yunkang Daan Medical Laboratory Co., Ltd., Jinan Yunkang Daan Medical Laboratory Co., Ltd., Shenzhen Yunkang Daan Medical Laboratory, Guiyang Yunkang Daan Medical Laboratory Co., Ltd., Zhuhai Yunkang Daan Medical Laboratory Co., Ltd., Foshan Yunkang Daan Medical Laboratory Co., Ltd., Shantou Yunkang Daan Medical Laboratory Co., Ltd., Huizhou Yunkang Daan Medical Laboratory Co., Ltd., Dongguan Yunkang Daan Medical Laboratory Co., Ltd. and Guangzhou Baiyun Yunkang Daan Medical Laboratory Co., Ltd.	Planning to conduct diagnostic testing services including clinical genetic testing service	According to the 2021 Negative List, foreign investment is prohibited for the companies engaged in development and application of gene diagnosis and treatment technology, which forms part of clinical genetic testing
Guangzhou Clinic	Medical outpatient service	According to the 2021 Negative List, foreign investment is restricted for the companies engaged in medical outpatient service
Yunkang Lingnan	A project company for the development of the Group's global headquarters with no business operations	Yunkang Lingnan is held by Yunkang Industry and the transfer of equity interest in Yunkang Lingnan will constitute a breach of the Investment Agreement

The Importance and Financial Contribution of the Consolidated Affiliated Entities to the Group

Through our shareholdings and the Contractual Arrangements, our Company acquired effective control over Consolidated Affiliated Entities and, at our Company's sole discretion, can receive all of the economic interest returns generated by Consolidated Affiliated Entities. The total revenue and net assets of the Consolidated Affiliated Entities that are subject to the Contractual Arrangements amounted to approximately RMB881.0 million for the year ended December 31, 2023 and RMB1,676.2 million as at December 31, 2023, respectively.

Governing Framework

On January 1, 2020, the Foreign Investment Law ("**FIL**") passed by the second session of the thirteenth National People's Congress became effective. The FIL has replaced the Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures (中華人民共和國中外合資經營企業法), the Law of the People's Republic of China on Chinese-Foreign Contractual Joint Ventures (中華人民共和國中外合作經營企業法) and the Law of the People's Republic of China on Wholly Foreign-Owned Enterprises (中華人民共和國外資企業法) to become the legal foundation for foreign investment in the PRC. The Implementation Regulations for the Foreign Investment Law of the People's Republic of China (中華人民共和國外商投資法實施條例) (the "**Implementation Regulations for the Foreign Investment Law**") was passed by the 74th Executive Session of the State Council on December 12, 2019 and was implemented with effect from January 1, 2020.

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including us, to obtain and maintain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions or prohibitions in China. The FIL does not explicitly stipulate the contractual arrangements as a form of foreign investment. As advised by our PRC legal advisers, since contractual arrangements are not specified as foreign investment under the FIL or the Implementation Regulations for the Foreign Investment Law, and if the future laws, regulations and rules do not incorporate contractual arrangements as a form of foreign investment, the Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements will not be affected and will continue to be legal, valid and binding on the parties.

According to the FIL, the "foreign investment" refers to investment activities carried out directly or indirectly by foreign natural persons, enterprises or other organizations (hereinafter referred to as "**Foreign Investors**"). However, the interpretation and application of the FIL remain uncertain. In addition, the FIL stipulates that foreign investment includes "Foreign Investors investing in PRC through many other methods under laws, administrative regulations or provisions prescribed by the State Council." We cannot assure you that the Contractual Arrangements will not be deemed as a form of foreign investment under laws, regulations or provisions prescribed by the State Council in the future, as a result of which, it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the foreign investment access requirements and the impact on the Contractual Arrangements. If our ownership structure, Contractual Arrangements and business or that of Yunkang Industry, subsidiaries of Yunkang Industry and Guangzhou Clinic are found to be in violation of any existing or future PRC laws or regulations, or we fail to obtain or maintain any of the required permits or approvals, the relevant governmental authorities would have broad discretion in dealing with such violations, which may have a material adverse effect on the trading of its Shares.

Furthermore, new PRC laws, rules and regulations may be introduced to impose additional requirements that may be applicable to our corporate structure and the Contractual Arrangements. In addition, if any equity interest held by WFOE in Consolidated Affiliated Entities is held in the court custody in connection with its litigation, arbitration or other judicial or dispute resolution proceedings, we cannot assure you that the equity interest will be disposed of to us in such proceedings in accordance with the Contractual Arrangements. The occurrence of any of these events could adversely affect our business, financial condition and results of operations.

Risks in relation to the Arrangements and Actions Taken to Reduce Risks

There are the certain risks that are associated with the Contractual Arrangements, including:

i. if the PRC government deems that the Contractual Arrangements do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests received through the Contractual Arrangements;

ii. our Contractual Arrangements may not be as effective in providing operational control as direct ownership and our Consolidated Affiliated Entities and their shareholders may fail to perform their obligations under our Contractual Arrangements;

iii. our Contractual Arrangements may result in adverse tax consequences to us;

iv. the shareholders of Consolidated Affiliated Entities may potentially have a conflict of interest with us, and they may breach their contracts with us or cause such contracts to be amended in a manner contrary to our interests; and

v. if we exercise the option to acquire equity ownership and assets of our Consolidated Affiliated Entities, the ownership or asset transfer may subject us to certain limitations and substantial costs.

For details, please refer to the section headed "Risk Factors – Risks Relating to the Contractual Arrangements" in the Prospectus.

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

i. major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;

ii. our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;

iii. our Company will disclose the overall performance and compliance with the Contractual Arrangements in its annual reports to update the Shareholders and potential investors; and

iv. our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of The WFOE and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

Listing Rules Implications and Waivers from the Stock Exchange

The transactions contemplated under the Contractual Arrangements are continuing connected transactions of our Group and are subject to reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Our Directors, including our independent non-executive Directors, are of the view that (i) the Contractual Arrangements are fundamental to our Group's legal structure and business operations; and (ii) the Contractual Arrangements are on normal commercial terms or on terms more favorable to our Group in the ordinary and usual course of our Group's business and are fair and reasonable or to the advantage of our Group and are in the interests of our Shareholders as a whole.

Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company, for all the transactions contemplated under the Contractual Arrangements to be subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among other things, the announcement and approval of independent Shareholders.

In relation to the Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with (i) the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange subject however to certain conditions, the details of which are set out in the section headed "Connected Transactions" in the Prospectus.

Annual Review by the Independent Non-executive Directors and the Auditor

The independent non-executive Directors, upon review of the overall performance of and compliance with the Contractual Arrangements, confirmed that:

i. the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements;

ii. no dividends or other distributions have been made by the Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group; and

iii. any new contracts entered into, renewed or reproduced between our Group and the Consolidated Affiliated Entities during the relevant financial period are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of the Company and the Shareholders as a whole.

The auditor of the Company has carried out review procedures on the transactions carried out pursuant to the Contractual Arrangements during the Reporting Period in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants, confirming that:

i. the transactions carried out pursuant to the Contractual Arrangements have received the approval of our Directors; and

ii. no dividends or other distributions have been made by the Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned/transferred to our Group.

The Consolidated Affiliated Entities have undertaken that, for so long as the Shares are listed on the Stock Exchange, the Consolidated Affiliated Entities will provide our Group's management and our auditor with full access to its relevant records for the purpose of procedures to be carried out by our auditor on the connected transactions.

Material Changes

Save as disclosed above, there were no other new contractual arrangements entered into, renewed and/or reproduced between the Group and the Consolidated Affiliated Entities during the Reporting Period. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted during the Reporting Period.

During the Reporting Period, none of the Contractual Arrangements had been unwound on the basis that none of the restrictions that led to the adoption of the Contractual Arrangements had been removed. As at December 31, 2023, the Company had not encountered interference or encumbrance from any PRC governing bodies in operating its businesses through its Consolidated Affiliated Entities under the Contractual Arrangements.

Property Lease Agreement

Our Group entered into a property lease agreement with Da An Gene on January 1, 2021 (the "**Property Lease Agreement**"), pursuant to which Da An Gene agreed to let certain area with a total gross floor area of approximately 10,405.69 sq.m. located at No. 6, Lizhishan Road, Huangpu District, Guangzhou to our Group. Pursuant to the Property Lease Agreement, we also agreed to pay Da An Gene (i) property management fee; and (ii) water and electricity fees. The Property Lease Agreement has a term commencing from January 1, 2021 till December 31, 2022, which was renewed on January 1, 2023 on the similar terms commencing from January 1, 2023 till December 31, 2023. Please refer to the section headed "Connected Transactions" in the Prospectus for details.

The annual caps for the transactions under the Property Lease Agreement for the years ended December 31, 2022, 2023 and 2024 are RMB3,280,000, RMB3,572,000, and RMB3,890,000, respectively. The aggregate amount of property management fee and water and electricity fees incurred in accordance with the Property Lease Agreement for the year ended December 31, 2023 was RMB3,501,000.

Laboratory Testing Service Framework Agreement

Our Company entered into a Laboratory Testing Service Framework Agreement with Da An Gene on February 18, 2022, pursuant to which Da An Gene Group agreed to provide laboratory testing service to our Group. The term of the Laboratory Testing Service Framework Agreement is three years commencing from the Listing Date. We have the right to terminate the Laboratory Testing Service Framework Agreement by serving a thirty (30) Business Days' prior written notice to Da An Gene. Please refer to the section headed "Connected Transactions" in the Prospectus for details.

The annual caps for the transactions under the Laboratory Testing Service Framework Agreement for the years ended December 31, 2022, 2023 and 2024 are RMB14,134,000, RMB15,830,000, and RMB17,729,000, respectively. The aggregate transaction amount incurred in accordance with the Laboratory Testing Service Framework Agreement for the year ended December 31, 2023 was RMB13,256,000.

Reagents, Consumables and Equipment Procurement Framework Agreement

Our Company entered into a Reagents, Consumables and Equipment Procurement Framework Agreement with Da An Gene on February 18, 2022, pursuant to which we agreed to procure reagents, consumables and equipment from Da An Gene Group. The term of the Reagents, Consumables and Equipment Procurement Framework Agreement is three years commencing from the Listing Date. We have the right to terminate the Reagents, Consumables and Equipment Procurement Framework Agreement by serving a thirty (30) Business Days' prior written notice to Da An Gene. Please refer to the section headed "Connected Transactions" in the Prospectus, the Company's announcements dated May 30, 2022 and September 29, 2022 and the Company's circulars dated June 8, 2022 and October 14, 2022 for details.

The annual caps for the transactions under the Reagents, Consumables and Equipment Procurement Framework Agreement for the years ended December 31, 2022, 2023 and 2024 are RMB563,285,000, RMB591,450,000, and RMB621,022,000, respectively. The aggregate transaction amount incurred in accordance with the Reagents, Consumables and Equipment Procurement Framework Agreement for the year ended December 31, 2023 was RMB17,945,000.

The above continuing connected transactions have followed the policies and guidelines when determining the price and terms of the transactions conducted for the year ended December 31, 2023.

The auditor of the Company was engaged to review and report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the conclusions in respect of the abovementioned continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules hat nothing has caused them to believe that the continuing connected transactions (i) had not been approved by the Board; (ii) were not in accordance with the Company's pricing policies; (iii) were not entered into in accordance with the agreement governing them; and (iv) had exceeded the annual cap.

The independent non-executive Directors have reviewed and confirmed that the continuing connected transactions referred to above have been entered into, (i) in the ordinary and usual course of business of our Group; (ii) on normal commercial terms or better to us; and (iii) are according to the agreement governing them on terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

The Company has designated a team of senior management from business operation, legal, risk control and finance departments and Board office to monitor the continuing connected transactions and ensure that the continuing connected transactions with the abovementioned connected persons are on arm's length basis and that the annual caps are not exceeded. Such team of senior management continuously traces and regularly monitors the progress of the continuing connected transactions and reports to management of the Company. They review the continuing connected transactions with the finance department to ensure that annual caps are not exceeded. They will also communicate with the Audit Committee, management and the Board, monthly or as needed, to report the progress of the continuing connected transactions, and request for approval of new changes of existing transaction terms. The heads of different departments of the Company will be informed on a periodic basis in relation to the terms and pricing policies of the continuing connected transactions as well. The Audit Committee has also assigned the independent internal audit team the task to ensure that the Company's internal control measures in respect of the continuing connected transactions remain effective and complete. With these measures, the independent non-executive Directors could therefore assess and give the confirmations in the preceding paragraph.

Save for disclosed above, for the year ended December 31, 2023, we have not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the Rules 14A.49 and 14A.71 of the Listing Rules.

CONTRACT OF SIGNIFICANCE

Save as disclosed in Note 29 to the consolidated financial statements and in the section headed "Connected Transactions" above, no contract of significance was entered into between the Company, or one of its subsidiary companies, and any of its Controlling Shareholders or subsidiaries from the Listing Date to December 31, 2023.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any subsidiaries or Consolidated Affiliate Entities of the Group purchased, redeemed or sold any of the listed securities of the Company or any of its subsidiaries for the year ended December 31, 2023.

MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration for the year ended December 31, 2023. Except for a legal dispute as detailed in Note 35 to the consolidated financial statements, the Directors are not aware of any material litigation or claims that are pending or threatened against the Group during the year ended December 31, 2023.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The net proceeds from the Global Offering amounted to approximately HK$811.8 million. As at December 31, 2023, approximately HK$416.0 million of the net proceeds of the Global Offering had been utilized as follows:

	Allocation of net proceeds from the Global Offering in the proportion disclosed in the Prospectus		Proceeds from the Global Offering utilized as at December 31, 2023	Proceeds from the Global Offering utilized during the Reporting Period	Amounts not yet utilized as at December 31, 2023	Expected timeline of full utilization of the unutilized proceeds from the Global Offering
	HK$ million	Percentage	HK$ million	HK$ million	HK$ million	
Expanding and deepening our medical institution alliance network	446.5	55.0%	197.9	67.9	248.6	By the end of 2025
Upgrading and enhancing our operational capabilities of a medical operation service provider	162.3	20.0%	128.0	28.1	34.3	By the end of 2024
Expanding our diagnostic capabilities and enriching our diagnostic testing portfolio	81.2	10.0%	27.6	20.3	53.6	By the end of 2024
Potential investment and acquisition opportunities	40.6	5.0%	–	–	40.6	By the end of 2025
Recruiting and training up our talent pool	40.6	5.0%	21.9	17.2	18.7	By the end of 2025
Our working capital and general corporate purposes	40.6	5.0%	40.6	–	–	N/A
Total	811.8	100.0%	416.0	133.5	395.8	

The unutilized amount is expected to be used in accordance with the Company's plan as disclosed in the Prospectus and stated above. The Company will continue to evaluate market conditions and adopt a prudent and flexible approach for utilizing the net proceeds and will ensure the net proceeds will be used effectively and efficiently for the long-term benefit and development of the Group. The expected timeline of full utilization set out above is based on the Directors' best estimation barring unforeseen circumstances, and is subject to change in light of future development of market conditions.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the Latest Practicable Date, the Company has maintained the prescribed percentage of public float under the Listing Rules.

AUDITOR

PricewaterhouseCoopers resigned as the auditor of the Company with effect from November 17, 2023 and Mazars was appointed as the auditor of the Company with effect from November 23, 2023 to fill the casual vacancy.

The consolidated financial statements of the Group for the year ended December 31, 2023 have been audited by Mazars, who will retire and, being eligible, offer themselves for re-appointment at the AGM.

Please refer to the announcements of the Company dated November 17 and November 23, 2023 for details of the Company's change of auditor.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in the section headed "Management Discussion and Analysis – Business Review – Events after the Reporting Period", no important events affecting the Company occurred after the Reporting Period and up to the Latest Practicable Date.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, June 25, 2024 to Friday, June 28, 2024, both days inclusive, in order to determine the eligibility of the Shareholders to attend and vote at the forthcoming AGM. A notice of the AGM will be issued and delivered to the Shareholders in due course. In order to be eligible to attend and vote at the AGM, all transfer accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong before 4:30 p.m. on Monday, June 24, 2024.

FINAL DIVIDEND AND THE RECORD DATE

The Board resolved to recommend the payment of a final dividend of HK$0.02 per share for the year ended December 31, 2023 (December 31, 2022: HK$0.22 per share), totaling HK$12,425,000, to Shareholders whose names appear on the register of members of the Company as at the close of business on Friday, July 5, 2024. In order to qualify for the finial dividend for the year ended December 31, 2023, all transfer accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong before 4:30 p.m. on Friday, July 5, 2024. The final dividend is subject to the approval of Shareholders at the AGM and, if approved, is expected to be paid on or before Friday, August 30, 2024. Further announcement will be made in respect of the payment date of the final dividend.

By order of the Board
Yunkang Group Limited
Zhang Yong
Chairman

Guangzhou, the PRC, March 25, 2024

Independent Auditor's Report

MAZARS CPA LIMITED
中審眾環（香港）會計師事務所有限公司
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Email 電郵: info@mazars.hk
Website 網址: www.mazars.hk

To the shareholders of Yunkang Group Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Yunkang Group Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 97 to 179, which comprise the consolidated statement of financial position as at December 31, 2023, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2023, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Determination of whether the Group has control over consolidated affiliated entities under a series of contractual arrangements	
Refer to notes 2.2.1 (a) and 31 to the consolidated financial statements The Group, through its indirect wholly-owned subsidiary of the Company, which was a wholly foreign owned enterprise incorporated in the PRC (the "WFOE"), entered into a series of contractual arrangements (the "Contractual Arrangements") with Yunkang Industry Investment Co., Ltd. ("Yunkang Industry") and its registered shareholders (the "Registered Shareholders"). The Group, through the Contractual Arrangements, has exposure and rights to variable returns from its involvement with Yunkang Industry and its subsidiaries (together "Yunkang Industry Group"). Therefore, the Group is considered to have control over Yunkang Industry Group.	Our key procedures, among others, included: – Evaluating the terms in the Contractual Arrangements in connection with the Group's control over Yunkang Industry Group; – Understanding how the Group controls the daily business operation and financing activities of Yunkang Industry Group; – Evaluating the management's assessment in relation to the control over Yunkang Industry Group according to HKFRS 10; – Obtaining a legal opinion from the Company's PRC legal counsel regarding whether the Contractual Arrangements are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable; and – Evaluating the Company's PRC legal counsel's competence, capabilities and objectivity.

Key Audit Matter	How our audit addressed the Key Audit Matter
In determining the extent of the Group's involvement with and control over Yunkang Industry Group, the management considered a number of factors including whether the Group has: (i) exercised effective control over the Yunkang Industry Group; (ii) exercised equity holders' voting rights of the Yunkang Industry Group; (iii) received substantially all of the economic interests and returns generated by the Yunkang Industry Group in consideration for the technical support, consulting and other services provided exclusively by the WFOE, at the WFOE's discretion; (iv) obtained an irrevocable and exclusive right to purchase all equity interests in Yunkang Industry Group from its Registered Shareholders at a minimum purchase price permitted under the PRC laws and regulations unless the relevant government authorities request that another amount be used as the purchase consideration and in which case the purchase consideration shall be such amount. At the WFOE's request, the Registered Shareholders of Yunkang Industry Group will promptly and unconditionally transfer their respective equity interests of Yunkang Industry Group to the WFOE (or its designee within the Group) after the WFOE exercises its purchase right; and (v) obtained pledges over the entire equity interests in Yunkang Industry Group from its Registered Shareholders to secure, among others, performance of their obligations under the Contractual Arrangements, as appropriate. We identified the above matter as a key audit matter because Yunkang Industry Group is material to the Group and the determination of whether the Group has control over Yunkang Industry Group involves a significant degree of management's judgement.	

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected credit loss assessment for trade receivables	
Refer to notes 3.1.2, 4(a), and 19 to the consolidated financial statements As at December 31, 2023, the Group had gross trade receivables of approximately RMB1,851,408,000, against which an expected credit loss allowance of RMB337,619,000 was recorded. Management applied the simplified approach under HKFRS 9 to calculate the expected credit loss ("ECL") for trade receivables which is based on lifetime ECL at each reporting date. Management performed a detailed analysis which considered customers' ageing profile, credit history, historical payment pattern and forward-looking information for the estimation of ECL on its trade receivables. We identified the impairment assessment of trade receivables as a key audit matter due to the significance of the balances. Furthermore, a significant degree of management estimation is required in assessing ECL of trade receivables which may affect their carrying amounts.	Our key procedures, among others, included: – Obtaining an understanding of the design and implementation of the Group's internal control and assessment process of the expected credit losses of trade receivables; – Obtaining an understanding of management's rationale in the identification of individually credit-impaired trade receivables and the grouping of those trade receivables with similar credit risk characteristics for collective assessment; – Challenging and evaluating the appropriateness of the ECL methodology adopted by management; – Testing, on a sample basis, the grouping and accuracy of ageing analysis of trade receivables prepared by management by examining the underlying supporting documents; – Checking the mathematical accuracy of the calculations of provision for credit loss allowance as prepared by management; and – Inspecting subsequent cash receipts from customers relating to those balances on a sample basis.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of financial instruments measured at fair value	
Refer to notes 2.11, 21(a) and 21(b) to the consolidated financial statements As at December 31, 2023, the Group had financial assets at fair value through other comprehensive income ("FVOCI") and financial assets at fair value through profit or loss ("FVTPL") which were not quoted in an active market and measured at level 3 fair value hierarchy amounted to RMB328 million. The fair value assessment of the financial instruments that are measured at level 3 fair value hierarchy requires significant estimates, unobservable inputs, usually involves subjective judgement and assumptions, which include discount for lack of marketability, comparable price to book value or price to earnings multiples, discount rate, expected volatility, expected rate of return, market information of recent transactions (such as recent fund raising transactions undertaken by the investees) and other assumptions. Changes in these assumptions and estimates could materially affect the respective fair value of these investments. As such, we identified this as a key audit matter.	Our key procedures, among others, included: – Reviewing the valuation reports from the valuer appointed by the management and discussing with the management and the valuer, if appropriate, to understand the valuation basis and methodology used, and underlying assumptions applied; – Evaluating the objectivity, capabilities and competence of the valuer; – Assessing the reasonableness of assumptions, methodologies, significant unobservable inputs, if any, and the accuracy of the source data adopted by the management and the valuer; and – Checking arithmetical accuracy of the calculations in the valuation reports.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the Company's 2023 annual report but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Mazars CPA Limited
Certified Public Accountants
42/F, Central Plaza
18 Harbour Road
Wanchai, Hong Kong

March 25, 2024

The engagement director on the audit resulting in this independent auditor's report is:
So Chun Wai
Practising Certificate number: P07513

Consolidated Statement of Comprehensive Income

	Note	Year ended December 31, 2023 RMB'000	2022 RMB'000
Revenue	5	**891,500**	3,756,201
Cost of revenue	8	**(565,714)**	(2,448,471)
Gross profit		**325,786**	1,307,730
Selling expenses	8	**(150,855)**	(312,005)
Administrative expenses	8	**(191,636)**	(386,673)
Net impairment losses on financial assets	3.1.2	**(104,617)**	(187,620)
Other income	6	**9,127**	20,047
Other gains (losses) – net	7	**45,657**	(185)
Fair value changes on financial assets at fair value through profit or loss	21(b)	**13,962**	17,257
Operating (loss) profit		**(52,576)**	458,551
Finance income	10	**9,325**	5,180
Finance costs	10	**(43,560)**	(20,307)
Finance costs – net		**(34,235)**	(15,127)
(Loss) Profit before income tax		**(86,811)**	443,424
Income tax expenses	11	**(15,078)**	(69,475)
(Loss) Profit for the year		**(101,889)**	373,949
Other comprehensive loss, net of tax			
Items that will not be reclassified to profit or loss			
– Changes in fair value of financial assets at fair value through other comprehensive income, net of tax	21(a)	**(7,375)**	(18,872)
Total comprehensive (loss) income for the year		**(109,264)**	355,077

	Note	Year ended December 31, 2023 RMB'000	2022 RMB'000
(Loss) Profit attributable to:			
– Owners of the Company		**(102,259)**	377,309
– Non-controlling interests		**370**	(3,360)
		(101,889)	373,949
Total comprehensive (loss) income attributable to:			
– Owners of the Company		**(109,634)**	358,437
– Non-controlling interests		**370**	(3,360)
		(109,264)	355,077
(Loss) Earnings per share for (loss) profit attributable to owners of the Company			
– Basic and diluted (in RMB)	12	**(0.17)**	0.66

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

	Note	As at December 31, 2023 RMB'000	2022 RMB'000
Assets			
Non-current assets			
Property and equipment	13	**396,921**	420,602
Intangible assets	14	**3,368**	3,756
Prepayments and other receivables	20	**4,788**	15,658
Financial assets at fair value through other comprehensive income ("**FVOCI**")	21(a)	**74,508**	84,341
Financial assets at fair value through profit or loss ("**FVTPL**")	21(b)	**162,354**	160,241
Deferred income tax assets	16	**51,832**	53,911
		693,771	738,509
Current assets			
Inventories	17	**18,021**	41,317
Trade and bill receivables	19	**1,515,500**	2,432,165
Prepayments and other receivables	20	**28,557**	118,749
Financial assets at FVTPL	21(b)	**626,608**	642,569
Restricted cash	22	**405,475**	145,926
Cash and cash equivalents	22	**1,244,120**	787,742
		3,838,281	4,168,468
Total assets		**4,532,052**	4,906,977
Equity			
Equity attributable to owners of the Company			
Share capital and share premium	23(a)	**621,314**	743,248
Shares held for employee share scheme	23(b)	**(188,524)**	–
Other reserves	24	**929,692**	936,510
Retained earnings		**749,670**	852,505
		2,112,152	2,532,263
Non-controlling interests		**7,705**	7,316
Total equity		**2,119,857**	2,539,579

	Note	As at December 31, 2023 RMB'000	2022 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	26	**193,594**	328,115
Lease liabilities	15(a)	**25,882**	57,677
Deferred income tax liabilities	16	**4,088**	2,122
		223,564	387,914
Current liabilities			
Borrowings	26	**1,154,247**	363,669
Trade and other payables	27	**975,484**	1,492,079
Current income tax liabilities		**42,784**	85,433
Lease liabilities	15(a)	**16,116**	36,658
Deferred revenue	25	**–**	1,645
		2,188,631	1,979,484
Total liabilities		**2,412,195**	2,367,398
Total equity and liabilities		**4,532,052**	4,906,977

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 97 to 179 were approved by the Board of Directors of the Company on March 25, 2024 and were signed on its behalf by:

Zhang Yong
Director

Xie Shaohua
Director

Consolidated Statement of Changes in Equity

	Note	Attributable to owners of the Company						
		Share capital and share premium RMB'000 (Note 23(a))	Shares held for employee share scheme RMB'000 (Note 23(b))	Other reserves RMB'000 (Note 24)	Retained earnings* RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance as at January 1, 2023		743,248	–	936,510	852,505	2,532,263	7,316	2,539,579
Loss for the year		–	–	–	(102,259)	(102,259)	370	(101,889)
Other comprehensive loss								
– Changes in fair value of financial assets at FVOCI, net of tax	24	–	–	(7,375)	–	(7,375)	–	(7,375)
Transfer of loss on disposal of financial assets at FVOCI to retained earnings	24	–	–	576	(576)	–	–	–
Total comprehensive loss for the year		–	–	(6,799)	(102,835)	(109,634)	370	(109,264)
Transactions with owners:								
Capital withdrawn from non-controlling interests	24	–	–	(19)	–	(19)	19	–
Shares purchased under the 2022 RSU Scheme	23(b)	–	(188,524)	–	–	(188,524)	–	(188,524)
Dividends	33	(121,934)	–	–	–	(121,934)	–	(121,934)
Total transactions with owners		(121,934)	(188,524)	(19)	–	(310,477)	19	(310,458)
Balance as at December 31, 2023		621,314	(188,524)	929,692	749,670	2,112,152	7,705	2,119,857

	Note	Attributable to owners of the Company						
		Share capital and share premium RMB'000 (Note 23(a))	Shares held for employee share scheme RMB'000 (Note 23(b))	Other reserves RMB'000 (Note 24)	Retained earnings* RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance as at January 1, 2022		21,126	–	955,382	475,196	1,451,704	(124)	1,451,580
Profit for the year		–	–	–	377,309	377,309	(3,360)	373,949
Other comprehensive loss								
– Changes in fair value of financial assets at FVOCI, net of tax	24	–	–	(18,872)	–	(18,872)	–	(18,872)
Total comprehensive income for the year		–	–	(18,872)	377,309	358,437	(3,360)	355,077
Transactions with owners:								
Capital contribution from non-controlling interests		–	–	–	–	–	10,800	10,800
Shares issued upon the completion of initial public offering, net of transaction costs		716,349	–	–	–	716,349	–	716,349
Shares issued upon partial exercise of the over-allotment option, net of transaction costs		53,899	–	–	–	53,899	–	53,899
Dividends	33	(48,126)	–	–	–	(48,126)	–	(48,126)
Total transactions with owners		722,122	–	–	–	722,122	10,800	732,922
Balance as at December 31, 2022		743,248	–	936,510	852,505	2,532,263	7,316	2,539,579

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

* According to the PRC Company Law, the PRC subsidiaries of the Group (excluding foreign investment enterprises) are required to transfer 10% of their profit after taxation, as determined under the PRC Accounting Regulations, to the statutory reserve until the reserve balance reached 50% of their registered capital. The transfer to statutory reserve must be made before distribution of a dividend to shareholders. As at December 31, 2023, the statutory reserve of approximately RMB65,126,000 (2022: RMB65,126,000) was grouped under retained earnings.

Consolidated Statement of Cash Flows

	Note	Year ended December 31, 2023 RMB'000	2022 RMB'000
Cash flows of operating activities			
Cash generated from operations	28(a)	**385,067**	209,498
PRC enterprise income tax paid		**(51,224)**	(72,133)
Net cash generated from operating activities		**333,843**	137,365
Cash flows of investing activities			
Purchases of property and equipment		**(60,993)**	(316,841)
Proceeds from disposal of property and equipment		**2,890**	–
Purchases of intangible assets		**(1,221)**	(797)
Payments for financial assets at FVOCI		**–**	(6,000)
Purchases of financial assets at FVTPL		**(883,208)**	(727,310)
Proceeds from redemption of financial assets at FVTPL		**947,277**	–
Payments for loan receivable		**–**	(100,000)
Collection of loan receivable	20(a)	**100,864**	–
Restricted cash as deposits for investments		**–**	(123,310)
Restricted cash – deposits of investment funds		**114,644**	–
Increase in pledged time deposits for bank loans		**(374,193)**	–
Collection of amounts due from a related party		**–**	19,750
Net proceeds from disposals of equipment		**–**	882
Net cash used in investing activities		**(153,940)**	(1,253,626)
Cash flows of financing activities			
Proceeds from borrowings		**1,093,322**	610,321
Repayments of borrowings		**(449,265)**	(209,222)
Interest paid		**(36,057)**	(16,761)
Principal elements and interest expenses of lease payments		**(21,067)**	(22,312)
Proceeds from initial public offering		**–**	767,065
Proceeds from partial exercise of the over-allotment option		**–**	54,714
Capital injection from non-controlling interests		**–**	10,800
Dividend paid		**(121,934)**	(48,126)
Shares repurchased for employee share reward scheme	23(b)	**(188,524)**	–
Payment of listing expenses		**–**	(44,431)
Net cash generated from financing activities		**276,475**	1,102,048
Net increase (decrease) in cash and cash equivalents		**456,378**	(14,213)
Cash and cash equivalents at beginning of year		**787,742**	800,695
Effect of exchange rate changes on cash and cash equivalents		**–**	1,260
Cash and cash equivalents at end of year	22	**1,244,120**	787,742

Major non-cash transactions:		
Transfer from lease liabilities to other payable	**15,375**	–

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

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

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

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

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES

The material accounting policies applied in preparation of these consolidated financial statements are set out as below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") and the disclosure requirements of the Companies Ordinance (Cap. 622) in Hong Kong.

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets at FVOCI and financial assets at FVTPL which are measured at fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are material to the consolidated financial statements are disclosed in Note 4.

The following new amendments to existing standards are effective for annual reporting periods beginning on or after January 1, 2023. The adoption of these new amendments to existing standards does not have any significant impact to the results and financial position of the Group:

Amendments to HKAS 1	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules

Amendments to HKAS 1: Disclosure of Accounting Policies

The amendments require companies to disclose their material accounting policy information rather than their material accounting policies.

The amendments have no effect on the measurement, recognition or presentation of any items in the consolidated financial statements. Management has reviewed the disclosure of accounting policy information and considered it is consistent with the amendments.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Amendments to HKAS 8: Definition of Accounting Estimates

The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

Amendments to HKAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the recognition exemption in paragraphs 15 and 24 of HKAS 12 so that it no longer applies to transactions that, on recognition, give rise to equal taxable and deductible temporary differences.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

Amendments to HKAS 12: International Tax Reform – Pillar Two Model Rules

The amendments provide entities with temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's Pillar Two model rules. The amendments also introduce targeted disclosure requirements to help investors understand an entity's exposure to income taxes arising from the rules.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

New amendments to standards that have been issued but are not effective

Amendments that have been issued but not yet effective for the financial year beginning January 1, 2023 and not been early adopted by the Group are as follows:

		Effective for annual periods beginning on or after
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	January 1, 2024
Amendments to HKAS 1	Non-current Liabilities with Covenants	January 1, 2024
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements	January 1, 2024
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback	January 1, 2024
Amendments to HKAS 21	Lack of Exchangeability	January 1, 2025
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

Except for the certain amendments to HKAS 1 which are explained below, the other amendments are not expected to be relevant to the Group.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Amendments to HKAS 1: Classification of Liabilities as Current or Non-current

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.

The impact of the amendments to HKAS 1 is still under assessment by the Group.

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are entities (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and consolidated statement of financial position respectively.

(a) Subsidiaries controlled through Contractual Arrangements

A wholly-owned subsidiary of the Company, which was a wholly foreign owned enterprise incorporated in the PRC (the “WFOE”), has entered into the a series of contractual arrangements with Yunkang Health Industry Investment Co., Ltd. (“Yunkang Industry”) and its registered shareholders (“Registered Shareholders”) on October 22, 2019 (“2019 Contractual Arrangements”), on December 29, 2020 (“2020 Contractual Arrangements”), and February 24, 2021 (“2021 Supplemental Contractual Arrangements”) respectively (collectively “Contractual Arrangements”), which enable the WFOE and the Group to:

- Exercise effective control over the entities the Group controls through the Contractual Arrangements, being Yunkang Industry, subsidiaries of Yunkang Industry and Guangzhou Yunkang Clinic Co., Ltd. (“Consolidated Affiliated Entities”);

- Exercise equity holders’ voting rights of the Consolidated Affiliated Entities;

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation (Continued)

(a) Subsidiaries controlled through Contractual Arrangements *(Continued)*

- Receive substantially all of the economic interests and returns generated by the Consolidated Affiliated Entities in consideration for the technical support, consulting and other services provided exclusively by the WFOE, at the WFOE's discretion;

- Obtain an irrevocable and exclusive right to purchase all equity interests in Yunkang Industry from its Registered Shareholders at a minimum purchase price permitted under PRC laws and regulations unless the relevant government authorities request that another amount be used as the purchase consideration and in which case the purchase consideration shall be such amount. At the WFOE's request, the Registered Shareholders of Yunkang Industry will promptly and unconditionally transfer their respective equity interests of Yunkang Industry to the WFOE (or its designee within the Group) after the WFOE exercises its purchase right;

- Obtain pledges over the entire equity interests in Yunkang Industry from its Registered Shareholders to secure, among others, performance of their obligations under the Contractual Arrangements.

The Group does not have any equity interest in the Consolidated Affiliated Entities. However, as a result of the Contractual Arrangements, the Group has rights to variable returns from its involvement with the Consolidated Affiliated Entities and has the ability to affect those returns through its power over the Consolidated Affiliated Entities and is considered to control the Consolidated Affiliated Entities. Consequently, the Company regards the Consolidated Affiliated Entities as controlled structure entities and consolidated the financial position and results of operations of these entities in the consolidated financial statements of the Group during the year.

Nevertheless, there are still uncertainties regarding the interpretation and application of current and future PRC laws and regulations. The Directors of the Company, based on the advice of its legal counsel, consider that the use of the Contractual Arrangements does not constitute a breach of relevant laws and regulations and the Contractual Arrangements are legally enforceable during the year.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.2 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost.

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.2.3 Changes in equity interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in equity interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

If the equity interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES *(Continued)*

2.3 Business combination

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group, if any;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquired entity, and the acquisition date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in profit or loss.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES *(Continued)*

2.4 Separate financial statements

In the Company's statement of financial position, the investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that makes strategic decisions.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional currency and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented as finance income/(costs). All other foreign exchange gains and losses are presented on a net basis with in other gains/(losses).

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES *(Continued)*

2.6 Foreign currency translation *(Continued)*

(c) Group entities

The results and financial positions of the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities of each statement of financial position of the group entities are translated at the closing rate at the date of that statement of financial position;

- income and expenses of each statement of comprehensive income of the group entities are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken into equity holders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the profit or loss as part of the gain or loss on sale.

2.7 Property and equipment

Property and equipment are stated at historical cost less depreciation and any impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are recognized in profit or loss during the period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives or, in case of leasehold improvements, and certain leased properties, the shorter lease term, as follows:

– Properties and buildings	30-35 years
– Medical equipment	3-10 years
– Vehicles, furniture and office equipment	3-10 years
– Leasehold improvements	3-5 years
– Right-of-use assets for land use rights	40 years
– Right-of-use assets for leased properties, equipment and vehicles	2-8 years

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES *(Continued)*

2.7 Property and equipment *(Continued)*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other losses – net" in the statement of comprehensive income.

Construction in progress are stated at historical cost less accumulated impairment losses, if any. Historical cost includes direct costs of construction, amortisation of land use rights being developed and finance costs arising from borrowings used to finance these assets during the period of construction. No provision for depreciation is made on assets under construction. When the construction activities necessary to prepare the assets for their intended use are completed, the costs are transferred to property and equipment and depreciated in accordance with the policy as stated in the preceding paragraphs.

2.8 Intangible assets

(a) Software

Acquired and self-developed software are capitalised on the basis of the costs incurred to develop, acquire and bring to use the specific software.

Self-developed software is recognized as intangible assets on the basis of development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group where the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use,
- management intends to complete the software and use or sell it,
- there is an ability to use or sell the software,
- it can be demonstrated how the software will generate probable future economic benefits,
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include staff costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES *(Continued)*

2.8 Intangible assets *(Continued)*

(b) Research and development

Research expenditure and development expenditure that do not meet the criteria in (a) above are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

(c) Amortisation methods and periods

The Group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

– Software	3-5 years

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or when there is an indication of impairment. Other assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred income tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognized for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognized. A gain or loss not previously recognized by the date of the sale of the non-current asset (or disposal group) is recognized at the date of derecognition.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES *(Continued)*

2.10 Non-current assets (or disposal groups) held for sale and discontinued operations *(Continued)*

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognized.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income or loss. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES *(Continued)*

2.11 Financial assets *(Continued)*

2.11.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2.11.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

(a) Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group only held debt instruments classified as financial assets at amortized costs and fair value through profit or loss.

Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in the profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the consolidated statement of comprehensive income within "Fair value changes on financial assets at fair value through profit or loss" in the period in which it arises.

(b) Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss accounts. Dividends from such investments continue to be recognized in profit or loss accounts as other income when the Group's right to receive payments is established. Changes in the fair value of financial assets at fair value through profit or loss are recognized as "Fair value changes on financial assets at fair value through profit or loss" in the consolidated statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES *(Continued)*

2.11 Financial assets *(Continued)*

2.11.4 Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

For trade and bill receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the assets, see Note 3.1.2 for further details. The provision matrix is determined based on historical observed default rates over the expected life of the trade and bill receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Impairment of other receivables are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the assets and settle the liabilities simultaneously.

2.13 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Contract assets and contract liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide services to the customer. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognized as contract assets if the measure of the remaining rights exceeds the measure of the remaining performance obligations. Conversely, the contract is a liability and recognized as contract liabilities if the measure of the remaining performance obligations exceeds the measure of the remaining rights.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES *(Continued)*

2.15 Trade and bill receivables and other receivables

Trade and bill receivables are amounts due from customers for services performed in the ordinary course of business. Majority of other receivables are amounts due from related parties, loans receivable, cash advance to employees and deposit receivables. If collection of trade and bill receivables and other receivables is expected in one year or less (or in the normal operating cycle of business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and bill receivables and other receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Group holds trade and bill receivables and other receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method.

2.16 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand and at banks, and term deposits with financial institutions that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.17 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.18 Trade and other payables

Trade and other payables represent liabilities for goods or services that have been acquired in the ordinary course of business from suppliers and amounts to be repaid from the Group to its counterparties. These amounts are classified as current liabilities if payment is due within 12 months or less. If not, they are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES *(Continued)*

2.19 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid to the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that part or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.20 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other borrowing costs are expensed in the period in which they are incurred.

2.21 Current and deferred income tax

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 income tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) 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 the Company, its subsidiaries and associates indirectly held 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 and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES *(Continued)*

2.21 Current and deferred income tax *(Continued)*

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognized, 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 income tax liabilities are not recognized if they arise from the initial recognition of goodwill. The deferred income tax is 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 statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES *(Continued)*

2.22 Employee benefits

(a) Pension obligations

The Group only operates defined contribution pension plans. In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organized by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries subject to certain ceiling. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the governments.

The Group's contributions to the defined contribution retirement scheme are expensed as incurred.

No forfeited contributions for the above plans may be used by the employer to reduce the existing level of contributions.

(b) Housing funds, medical insurances and other social insurances

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurances and other social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each year. Contributions to the housing funds, medical insurances and other social insurances are expensed as incurred.

(c) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the statement of financial position.

(d) Bonus plan

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES *(Continued)*

2.22 Employee benefits *(Continued)*

(e) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.23 Provisions

Provisions for legal claims, service warranties and make good obligations are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

2.24 Revenue recognition

Revenue is measured at the transaction price received or receivable for the goods or services in the ordinary course of the Group's activities. Revenue is shown, net of discounts and after eliminating sales between the Group's companies. The Group recognizes revenue when it transfers control of the goods or services to a customer.

The Group offered diagnosis testing service and charge diagnostic testing service fees to different types of customers in relation to:

i. Diagnostic outsourcing services provided to clients directly through independent clinical laboratory, including hospitals, other medical institutions and public institutions;

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES *(Continued)*

2.24 Revenue recognition *(Continued)*

ii. Diagnostic testing services for medical institution alliances. The Group offered diagnostic testing services to medical institutions through integrating with the daily activities of on-site diagnostic centres. Besides, the Group also provides certain diagnostic outsourcing services to these medical institutions when the on-site diagnostic centres are not capable of performing certain diagnostic tests;

iii. Diagnostic testing services for non-medical institutions through independent clinical laboratories and clinics, including financial institutions, insurance companies and individuals.

Revenue from diagnosis testing business is recognized at a point in time when diagnostic testing reports were delivered and accepted by customer.

2.25 Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

2.26 Leases

The Group leases various land and properties. Rental contracts are typically made for a fixed period of 2 to 40 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Leases are recognized as "right-of-use assets" and presented in "property and equipment" (Note 13) and corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments (if applicable):

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES *(Continued)*

2.26 Leases *(Continued)*

Right-of-use assets are measured at cost comprising the following (if applicable):

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office equipment.

Lease income from operating leases where the Group is a lessor is recognized on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the statement of financial position based on their nature.

2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.28 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in profit or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to property and equipment, and other non-current assets are included in the current liabilities and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES *(Continued)*

2.29 Related parties

A related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of the parent of the Group.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependents of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

3.1 Financial risk factors

3.1.1 Market risk

(i) 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 Group principally operates in mainland China with most of the transactions being settled in RMB, which is the functional currency of the group entities operated in mainland China. Foreign exchange risk arises from the recognized assets and liabilities in foreign currencies other than their functional currencies, primarily with respect to HK$ and USD. The Group seeks to limit its exposure to foreign currency risk by closely monitoring and minimizing its net foreign currency position.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in RMB, was as follows:

	As at December 31, 2023		As at December 31, 2022	
	HK$ RMB'000	**USD RMB'000**	HK$ RMB'000	USD RMB'000
Prepayments and other receivables	**3,337**	**–**	–	–
Financial assets at FVTPL	**–**	**728,236**	91,957	655,820
Cash and cash equivalents	**1,002**	**154,112**	2,884	116
Restricted cash	**–**	**–**	–	111,715
Borrowings	**(86,091)**	**–**	–	–
Trade and other payables	**(427)**	**(85)**	–	–
	(82,179)	**882,263**	94,841	767,651

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.1 Market risk (Continued)

(i) Foreign exchange risk *(Continued)*

The following table shows the sensitivity analysis of a 5% change in RMB against the relevant foreign currencies. The sensitivity analysis includes only foreign currency denominated monetary items and adjusts their translation at the year-end for a 5% change in foreign currency rates. If there is a 5% increase/decrease in RMB against the relevant currencies, the effect on the results for the year is as follows:

	Year ended December 31,	
	2023 RMB'000	2022 RMB'000
	Increase (decrease) in post-tax loss	(Decrease) increase in post-tax profit
5% appreciation in RMB against HK$	**(4,109)**	(4,735)
5% depreciation in RMB against HK$	**4,109**	4,735
5% appreciation in RMB against USD	**44,113**	(38,383)
5% depreciation in RMB against USD	**(44,113)**	38,383

(ii) Cash flow and fair value interest rate risk

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

Other than interest-bearing bank balances, the Group has no other significant interest-bearing assets. The directors of the Company do not anticipate there is any significant impact to interest bearing assets resulted from the changes in interest rates, because the interest rates of bank balances and other receivables are not expected to change significantly.

As at December 31, 2023, borrowings of the Group which were bearing at floating rates amounted to approximately RMB296,095,437 (December 31, 2022: RMB220,415,176). For the year ended December 31, 2023, if the floating interest rate on borrowings had been higher/lower by 0.5% with all other variables held constant, the post-tax profit (loss) would have changed mainly as a result of higher/lower interest expenses on floating rate borrowings.

Details of changes are as follows:

	Year ended December 31,	
	2023 RMB'000	2022 RMB'000
	Increase (decrease) in post-tax loss	(Decrease) increase in post-tax profit
– 0.5% higher	**640**	(827)
– 0.5% lower	**(640)**	827

The interest rates are disclosed in Note 26.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.2 Credit risk

The Group is exposed to credit risk in relation to its trade and other receivables, debt instruments measured at FVTPL and cash deposits at banks. The carrying amount of each class of the above financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

(i) Risk management

The credit risk of cash deposits and balances at banks is considered to be low because the counterparties are state-owned or reputable institution which are high-credit-quality financial institutions. The directors of the Company do not expect any losses and no loss allowance provision for debt instruments measured at FVTPL, cash deposits and balances at banks.

Majority of the Group's trade receivables are from providing diagnostic testing service to the Chinese Center for Disease Control and Prevention ("CDC"), hospitals, as well as financial or insurance institutions. The Group has granted credit terms of 0-180 days and would follow up actively on the settlement with respective counter-parties to avoid any overdue receivables. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimize credit risk. Overdue balances are reviewed regularly by senior management. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are reviewed and analysed.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of such receivables based on historical settlement records, past experience as well as forward looking estimates. In view of history of cooperation with debtors, the directors believe that there is no material credit risk inherent in the Group's remaining outstanding balance of other receivables as the Group closely monitors their repayment.

(ii) Impairment

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations
- actual or expected significant changes in the operating results of the debtor

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.2 Credit risk (Continued)

(ii) Impairment *(Continued)*

- significant increases in credit risk on other financial instruments of the same debtor
- significant changes in the expected performance and behaviour of the debtor, including changes in the payment status of debtor in the Group and changes in the operating results of the debtor.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the company.

A summary of the assumptions underpinning the Group's expected credit loss model is as follows:

Category	Group definition of category	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 months expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Under-performing	Receivables for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and principal repayments are 180 days past due	Lifetime expected losses
Non-performing	Interest and principal repayments are 365 days past due	Lifetime expected losses

The Group accounts for its credit risk by appropriately providing for expected credit losses ("ECL") on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of receivables and adjusts for forward looking information.

Cash deposits and balances at banks

The Group expects that there is no significant credit risk associated with cash deposits and balances at banks since they are substantially deposited at banks with high credit rating. Management does not expect that there will be any significant losses from non-performance by these counterparties.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.2 Credit risk (Continued)

(ii) Impairment *(Continued)*

Trade receivables

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and aging of trade receivables. The expected credit losses also incorporate forward looking information affecting the ability of the customers to settle the receivables.

Other receivables

For other receivables and amounts due from related parties, management makes periodic collective assessments as well as individual assessment on the recoverability of such receivables based on historical settlement records and past experience. The directors of the Company believe that there is no material credit risk inherent in the Group's outstanding balance of other receivables and amounts due from related parties as the Group closely monitors their repayment. An impairment loss of RMB64,000 (2022: RMB120,000) was made in respect of the other receivables as a result of the ECL assessment conducted by the management of the Company.

The Group considers that the other receivables and amounts due from related parties have low credit risk based on the counterparties' strong capacity to meet their contractual cash flow obligations in the near term and low risk of default.

The management of the Group considers the ECL of the deposits and debtors to be insignificant so no loss allowance was recognized in this respect.

The relevant macroeconomic factors and the Group's business in terms of customer base, pricing strategy and market size were relatively stable before 2020. With the outbreak of COVID-19 in 2020, the Group experienced a fast and significant business development. Under the normalisation of epidemic prevention and control policy during most of the time in 2022, the number of customers and total transaction amounts have been increased significantly. In 2023, there was a decrease in revenue from the Group's diagnostic testing services as compared to 2022 as a result of a decline in the demand for phased testing and screening services nationwide. The settlement period for trade receivable from CDC and state-owned medical institutions (included in public medical institutions) was comparatively longer than other customers because it involved longer internal administrative procedures of customers for bill payment. The Group considered the risk profile of trade receivables has increased though the risk default of trade receivables is still relatively low as most of the customers are state-owned.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.2 Credit risk (Continued)

(ii) Impairment *(Continued)*

Bill receivables

The directors of the Company considered that the bill receivable is immaterial to the Group, and therefore, no ECL assessment conducted by the management of the Company.

Trade receivables are categorized in three groups such as public medical institutions, CDC and others for assessment purpose.

In respect of the trade receivables due from public medical institutions, CDC and others, the expected loss rates were based on the historical loss rates and adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the most relevant factors (e.g. money supply and population percent change from a year earlier), and accordingly adjusted the historical loss rates based on expected changes in these factors.

During the years ended December 31, 2023 and 2022, the Group had adjusted the forward-looking information and the expected credit loss to reflect the fluctuations of future economic conditions.

The following table shows the loss allowance provision for the Group's trade receivables as at December 31, 2023 and 2022.

Trade receivables	Up to 180 days	181 days to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
At December 31, 2023						
Public medical institutions						
Expected loss rate	3.13%	16.67%	26.04%	70.53%	100.00%	
Gross carrying amount (RMB'000)	223,287	199,144	658,160	61,202	15,138	1,156,931
Loss allowance provision (RMB'000)	(6,946)	(32,796)	(169,815)	(43,024)	(7,178)	(259,759)
Individually impaired receivables (RMB'000)	(1,523)	(2,414)	(6,027)	(202)	(7,960)	(18,126)
Others						
Expected loss rate	1.54%	15.72%	43.52%	99.53%	100.00%	
Gross carrying amount (RMB'000)	33,133	42,178	78,791	6,245	9,170	169,517
Loss allowance provision (RMB'000)	(511)	(6,630)	(34,293)	(5,881)	(3,154)	(50,469)
Individually impaired receivables (RMB'000)	–	–	–	(336)	(6,016)	(6,352)
CDC						
Expected loss rate	0.06%	0.49%	0.42%	2.78%	–	
Gross carrying amount (RMB'000)	13,150	22,888	457,557	31,365	–	524,960
Loss allowance provision (RMB'000)	(8)	(112)	(1,918)	(872)	–	(2,910)
Individually impaired receivables (RMB'000)	–	–	–	(3)	–	(3)
						(337,619)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.2 Credit risk (Continued)

Trade receivables	Up to 180 days	181 days to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
At December 31, 2022						
Public medical institutions						
Expected loss rate	3.38%	10.78%	28.22%	78.53%	100.00%	
Gross carrying amount (RMB'000)	1,081,895	486,006	131,630	19,925	11,044	1,730,500
Loss allowance provision (RMB'000)	(36,564)	(52,357)	(34,595)	(13,852)	(7,084)	(144,452)
Individually impaired receivables (RMB'000)	(1,111)	(269)	(9,018)	(2,285)	(3,960)	(16,643)
Others						
Expected loss rate	7.25%	31.19%	86.51%	100.00%	100.00%	
Gross carrying amount (RMB'000)	205,179	65,725	13,874	4,307	11,668	300,753
Loss allowance provision (RMB'000)	(14,224)	(20,265)	(11,231)	(2,400)	(4,179)	(52,299)
Individually impaired receivables (RMB'000)	(9,104)	(744)	(892)	(1,907)	(7,489)	(20,136)
CDC						
Expected loss rate	0.39%	0.39%	0.80%	–	–	
Gross carrying amount (RMB'000)	368,485	182,790	89,763	–	–	641,038
Loss allowance provision (RMB'000)	(1,414)	(718)	(714)	–	–	(2,846)
Individually impaired receivables (RMB'000)	(3,701)	(49)	–	–	–	(3,750)
						(240,126)

The loss allowance provision for trade and other receivables reconciles to the opening loss allowance for that provision was as follows:

	Trade receivables RMB'000	Other receivables RMB'000	Total RMB'000
At January 1, 2023	**240,126**	**297**	**240,423**
Impairment losses recognized in profit or loss	**104,553**	**64**	**104,617**
Written off	**(7,060)**	**–**	**(7,060)**
At December 31, 2023	**337,619**	**361**	**337,980**
At January 1, 2022	52,626	177	52,803
Net impairment losses recognized in profit or loss	187,500	120	187,620
At December 31, 2022	240,126	297	240,423

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

3.1.3 Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The table below analyses the Group's 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 RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
At December 31, 2023					
Borrowings	**1,436,024**	**50,100**	**2,836**	**16,100**	**1,505,060**
Lease liabilities	**17,748**	**12,863**	**9,104**	**5,411**	**45,126**
Trade and other payables (excluding accrued staff costs and other taxes payable)	**905,587**	**–**	**–**	**–**	**905,587**
	2,359,359	**62,963**	**11,940**	**21,511**	**2,455,773**
At December 31, 2022					
Borrowings	384,246	270,613	32,513	36,224	723,596
Lease liabilities	38,471	21,629	17,463	23,839	101,402
Trade and other payables (excluding accrued staff costs and other taxes payable)	1,361,739	–	–	–	1,361,739
	1,784,456	292,242	49,976	60,063	2,186,737

3.2 Capital management

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

In order to maintain or adjust the capital structure, the Group may adjust the amounts of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management *(Continued)*

The Group monitors capital on the basis of the gearing ratio. The gearing ratio is calculated as net debt divided by total capital. Net debt/(cash) is calculated as total borrowings and lease liabilities less cash and cash equivalents. Total capital comprises all components of equity as shown in the consolidated statements of financial position plus net debt/(cash). As at December 31, 2023 and 2022, the gearing ratio of the Group was as follows:

	Year ended December 31,	
	2023	2022
Net debt/(cash) (RMB'000)	**145,719**	(1,623)
Total capital (RMB'000)	**2,265,576**	2,537,956
Gearing ratio	**6.43%**	Not applicable

3.3 Fair value estimation

(a) Fair value hierarchy

The Group made judgments and estimates in determining the fair values of the financial instruments that are recognized and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

At December 31, 2023	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets at FVTPL				
– Investment in private funds	**–**	**325,569**	**90,748**	**416,317**
– Structured notes	**–**	**210,291**	**–**	**210,291**
– Unlisted companies	**–**	**–**	**162,354**	**162,354**
Financial assets at FVOCI				
– Unlisted companies	**–**	**–**	**74,508**	**74,508**
Total financial assets	**–**	**535,860**	**327,610**	**863,470**

At December 31, 2022	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at FVTPL				
– Debt instruments	–	–	34,911	34,911
– Investment in private funds	–	401,165	206,493	607,658
– Unlisted companies	–	–	160,241	160,241
Financial assets at FVOCI				
– Unlisted companies	–	–	84,341	84,341
Total financial assets	–	401,165	485,986	887,151

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(a) Fair value hierarchy (Continued)

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the year ended December 31, 2023 (2022: same).

(b) The following table presents the changes in level 3 instruments

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Financial assets at FVOCI		
Balance at beginning of the year	**84,341**	110,004
Changes in fair value charged to other comprehensive income	**(9,833)**	(25,163)
Disposals	**–**	(500)
Balance at end of the year	**74,508**	84,341
Financial assets at FVTPL		
Balance at beginning of the year	**401,645**	58,243
Additions	**352,611**	344,653
Changes in fair value credited (charged) to profit or loss	**15,405**	(1,251)
Disposals	**(516,559)**	–
Balance at end of the year	**253,102**	401,645

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(c) Valuation process, inputs and relationship to fair value

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once a year, the team uses valuation techniques to determine the fair value of the Group's level 3 instruments. Independent valuer will be involved when necessary.

As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including:

- the latest round financing, i.e. the prior transaction price or the third-party pricing information; and

- a combination of observable and unobservable inputs, including risk-free rate, expected volatility, discount rate for lack of marketability, market multiples, etc.

There was no change to valuation techniques during the year end December 31, 2023 (2022: same).

The following table summarizes the quantitative information about the significant unobservable inputs used in the recurring level 3 fair value measurements.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(c) Valuation process, inputs and relationship to fair value (Continued)

	Fair value		Significant unobservable inputs	Range of inputs		Relationship of unobservable inputs to fair value
	As at December 31,			As at December 31,		
	2023 RMB'000	2022 RMB'000		2023	2022	
Investments in unlisted companies and a limited liability partnership measured at FVOCI	74,508	84,341	Discounted for lack of marketability ("DLOM")	10%-29%	10%-29%	The higher the DLOM, the lower the fair value
			Price to book value ("P/B") multiple	1.45-4.60	1.00-2.50	The higher the P/B multiple, the higher the fair value
Investment in an unlisted company measured at FVTPL	60,726	55,032	DLOM	10%-29%	10%-29%	The higher the DLOM, the lower the fair value
			Price to earnings ("P/E") multiple	26.35	12.80	The higher the P/E multiple, the higher the fair value
			P/B multiple	2.51	1.00-2.40	The higher the P/B multiple, the higher the fair value
			Expected volatility	33.13%-36.87%	33.01%-42.00%	The higher the discount rate, the lower the fair value
Investment in an unlisted company measured at FVTPL	101,628	105,209	By reference to the latest round of financing	N/A	N/A	N/A
			DLOM	20.5%	N/A	The higher the discount rate, the lower the fair value
			Weighted average cost of capital	16.8%	N/A	The higher the discount rate, the lower the fair value
Debt instruments	–	34,911	Expected rate of return	N/A	0.5%	The higher the expected rate of return, the higher the fair value
Investment in private funds	90,748	206,493	Net asset value	N/A	N/A	The higher the net asset value, the higher the fair value
	327,610	485,986				

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(c) Valuation process, inputs and relationship to fair value (Continued)

If the fair value of the Group's financial assets at FVOCI had been 10% higher/lower, other comprehensive loss before income tax for the year ended December 31, 2023 would have been approximately RMB7,451,000 lower/higher (2022: RMB8,434,000).

If the fair value of the Group's financial assets at FVTPL had been 10% higher/lower, the loss before income tax for the year ended December 31, 2023 would have been approximately RMB78,896,000 lower/higher (2022: profit before income tax would have been approximately RMB80,281,000 higher/lower).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Provision for expected credit losses of trade receivables

The Group makes provision for expected credit losses of trade receivables based on assumptions about risk of default and expected loss rates. The Group used judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade receivables and loss allowance for impairment in the periods in which such estimate has been changed. For details of the key assumptions and inputs used, see Note 3.1.2 above.

(b) Fair value measurement of financial assets at FVOCI and FVTPL

The fair value assessment of financial assets at FVOCI and FVTPL that are measured at level 3 fair value hierarchy requires significant estimates, which include DLOM, comparable P/B or P/E multiples, discount rate, expected volatility, expected rate of return, market information of recent transactions (such as recent fund raising transactions undertaken by the investees) and other assumptions. Changes in these assumptions and estimates could materially affect the respective fair value of these investments. For details of the valuation techniques and key inputs used, see Note 3.3 above.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

(c) Impairment of property and equipment

As at December 31, 2023, the Group's carrying value of property and equipment ("PP&E") before impairment provision was RMB575,964,000 (2022: RMB694,008,000). Management assesses related assets for potential impairment whenever there are indications that the carrying value of an asset or a group of assets may not be recoverable. The management performed impairment assessment on PP&E with impairment indications at the level of cash generating unit ("CGU") to which the PP&E was allocated using discounted cash flow model. Based on the impairment test as at December 31, 2023, RMB179,043,000 (2022: RMB273,406,000) of impairment was recognized by management, which mainly included COVID-19 related PP&E.

(d) Subsidiary governed under contractual arrangements

When preparing the consolidated financial statements, the management applied HKFRS 10 to determine whether the Group has "control" over the entities considered to be subsidiaries. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity, has the power to direct the relevant activities of the entity, and has the ability to affect those returns through its power over the entity. Key factors used in determining control and whether the entities are subsidiaries include whether the Group has power over the entities either through voting rights or contractual arrangements and whether it has the rights to obtain the majority of benefits or is exposed to the majority of ownership risks.

When the above factors are met, the management determines that the Group has control over the entities include them as subsidiaries in the Company's consolidated financial statements. For the entities where the Group holds no equity interest but are subject to contractual arrangements, significant judgments are necessary as to whether the contracts give the Group the ability to exercise control over those entities, including consideration of the PRC legal and regulatory requirements, foreign exchange control, or other influences, such as, force majeure, etc.

(e) Consolidation of structured entities

The Group acts as investor in structured entities (Note 21(d)). Management needs to make significant judgments on whether the Group controls and should consolidate these structured entities. In assessing control, the Group needs to consider: 1) the power over the investee; 2) the exposure, or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to influence the amount of its return. The Group considers all facts and circumstances in performing the assessment, and if one or more of the three control elements mentioned above change, the Group will reassess whether control still exists.

In evaluating whether the Group has power over the structured entities, the Group considers the contractual rights and obligations in light of the transaction structures. If the Group cannot take part in the decision making in relevant activities in the structured entities, and the Group cannot remove the decision maker without cause and the Group's full redemption from the structured entity would not result in the termination of the structure entities, management assess there is no power over the structured entities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(Continued)*

(f) Current and deferred income tax

The Group is subject to corporate income taxes in the PRC. Judgment is required in determining the amount of the provision for taxation and the timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. The outcome of their actual utilization may be different.

5 REVENUE

(a) Description of principal activities

The Group has only one single operating segment – diagnostic services. The principal operating entities of the Group are domiciled in the PRC. Accordingly, all of the Group's revenue were derived in the PRC during the year ended December 31, 2023 (2022: same).

(b) Revenue by business line

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Recognized at a point in time:		
Diagnostic services	**891,500**	3,756,201

(c) Revenue by region

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Southern China	**732,061**	2,790,396
Eastern China	**71,036**	593,653
Southwestern China	**73,749**	319,447
Other regions in mainland China	**14,654**	52,705
	891,500	3,756,201

The Company is domiciled in the Cayman Islands while the Group's non-current assets and revenues are substantially located in and derived from the PRC, respectively.

5 REVENUE *(Continued)*

(d) Information about major customers

All the revenues derived from single external customers were less than 10% of the Group's total revenue during the year ended December 31, 2023 (2022: same).

(e) Unsatisfied performance obligations

For diagnostic testing services, they are rendered in short period of time, which is generally within hours or a couple of days. These unsatisfied performance obligations are immaterial and the Group has elected the practical expedient for not to disclose the remaining performance obligations for these types of contracts.

6 OTHER INCOME

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Government grants (Note (a))	**8,797**	19,804
Others	**330**	243
	9,127	20,047

(a) The government grants mainly include those grants from the local governments in recognition of the entitlement of the research and development projects of the Group. There are no unfulfilled conditions or other contingencies attached to these grants.

7 OTHER GAINS (LOSSES) – NET

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Gains on redemption of financial assets at FVTPL	**36,561**	–
Exchange gain – net	**5,286**	1,545
Gains (Losses) on disposal of equipment	**1,396**	(536)
Others	**2,414**	(1,194)
	45,657	(185)

8 EXPENSES BY NATURE

Expenses included in cost of revenue, selling expenses and administrative expenses are analysed as follows:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Cost of reagent and pharmaceuticals consumed (Note 17)	**222,967**	1,199,247
Staff costs (Note 9)	**299,662**	518,557
Labour outsourcing	**–**	301,258
Marketing and promotion expenses	**62,377**	156,394
Subcontracting costs	**86,067**	107,677
Depreciation and amortisation charges (Notes 13 and 14)	**68,320**	156,047
Impairment of property and equipment (Note 13)	**–**	273,406
Impairment of inventories	**388**	38,907
Medical disposal expenses	**5,623**	13,673
Transportation expenses	**22,882**	99,486
Office expenses	**18,659**	49,599
Travelling and entertainment expenses	**31,177**	60,046
Consultancy and professional service fees	**43,945**	75,566
Listing expenses	**–**	35,943
Rental expenses (Note 15)	**8,877**	7,253
Outsourced research and development expenses	**6,684**	18,579
Insurance	**165**	553
Other expenses	**27,812**	25,978
Auditor's remuneration		
– Audit services	**2,600**	7,820
– Non-audit services	**–**	1,160
	908,205	3,147,149

Research and development expenses during the year ended December 31, 2023 were RMB55,311,000 (2022: RMB94,732,000), which mainly included cost of reagent and pharmaceuticals consumed, related staff costs and outsourced research and development expenses. Research and development activities included (i) internal-use software upgrade and maintenance, and (ii) improvement in advanced diagnostic testing practice. No research and development expenses had been capitalized for the year ended December 31, 2023 (2022: same).

9 STAFF COSTS

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Salaries, bonuses and other benefits	**258,745**	472,416
Social security and provident fund	**40,917**	46,141
	299,662	518,557

Five highest paid individuals

No director was included in the five highest paid individuals and the emoluments payable to the five highest paid individuals during the years ended December 31, 2023 and 2022, respectively are as follows:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Salaries, bonuses and other benefits	**4,787**	5,246
Social security and provident fund	**482**	557
	5,269	5,803

The emoluments of these five highest paid individuals of the Group fell within the following emolument bands:

Number of individuals

	Year ended December 31,	
	2023	2022
Emolument bands (HK$)		
Nil – 1,000,000 (equivalent to RMB906,220)	**2**	–
1,000,001 (equivalent to RMB906,220) – 1,500,000 (equivalent to RMB1,359,320)	**3**	5
	5	5

Directors' emoluments are detailed in Note 32.

No emolument was paid or payable by the Group to any of the highest paid non-director employees as inducement to join or upon joining the Group or as compensation for loss of office during the years ended December 31, 2023 and 2022. The highest paid non-director employees did not waive any emoluments during the years ended December 31, 2023 and 2022.

10 FINANCE COSTS – NET

	Year ended December 31, 2023 RMB'000	2022 RMB'000
Finance income		
Interest income from bank deposits	**9,325**	5,180
Finance costs		
Interest expense on borrowings	**(40,672)**	(16,126)
Interest expense on lease liabilities (Note 15)	**(2,888)**	(3,725)
Other finance costs	**–**	(456)
	(43,560)	(20,307)
Finance costs – net	**(34,235)**	(15,127)

11 INCOME TAX EXPENSES

	Year ended December 31, 2023 RMB'000	2022 RMB'000
Current income tax	**8,575**	85,634
Deferred income tax	**6,503**	(16,159)
	15,078	69,475

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

Cayman Islands

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

Hong Kong

Hong Kong profits tax rate is 16.5%. Since April 1, 2018, the two-tiered profits tax regime took effect, under which the tax rate is 8.25% for assessable profits on the first HK$2 million and 16.5% for any assessable profits in excess of HK$2 million. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the year ended December 31, 2023 (2022: same).

11 INCOME TAX EXPENSES *(Continued)*

PRC corporate income tax ("CIT")

CIT was made on the estimated assessable profits of the entities within the Group incorporated in the PRC and was calculated in accordance with the relevant tax rules and regulations of the PRC after considering the available tax refunds and allowances. The general CIT rate is 25% for the year ended December 31, 2023 (2022: same).

Certain of the Group's entities in the PRC, which generated most of the Group's profit, have been approved as high technology enterprises under the relevant tax rules and regulations, and accordingly, are subjected to a reduced preferential CIT rate of 15% for the year ended December 31, 2023 (2022: same).

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

The tax on the Group's profit (loss) before income tax differs from the theoretical amount that would arise using the statutory CIT rate of 25%, being the tax rate applicable to the majority of consolidated entities as follows:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
(Loss) Profit before income tax expenses	**(86,811)**	443,424
Tax calculated at statutory CIT rate of 25%	**(21,703)**	110,856
Effect of preferential tax rates	**(5,529)**	(30,702)
Expenses not deductible for tax purposes	**2,538**	12,023
Super deduction on research and development expenses (Note (a))	**(8,296)**	(20,060)
Effect of income not subjected to income tax	**(6,330)**	(3,652)
Additional deductible allowance for property and equipment	**–**	(1,910)
Tax allowance for employment of people with disabilities	**(342)**	–
Overprovision for prior year	**(716)**	–
Utilisation of previously unrecognized tax losses	**(5,939)**	(111)
Tax losses and deductible temporary differences for which no deferred income tax assets were recognized	**61,395**	3,031
Income tax expenses	**15,078**	69,475

(a) According to the relevant laws and regulations promulgated by the State Council of the PRC, during the period from 2018 to 2023, enterprises engaging in research and development activities are entitled to claim 175% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year ("super deduction"). During the period from October 1, 2022 to December 31, 2022, the proportion of super deduction increased to 200%. The Group has made its best estimate for the super deduction to be claimed for the Group's entities in ascertaining their assessable profits during the year ended December 31, 2023 (2022: same).

12 (LOSS) EARNINGS PER SHARE

(a) Basic (loss) earnings per share

The basic (loss) earnings per share is calculated by dividing the (loss) profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year ended December 31, 2023, less the shares held under the restricted share unit scheme adopted by the Company on November 23, 2022 (the "2022 RSU Scheme") during the year of approximately 15,101,643 shares (2022: Nil). In determining the weighted average number of ordinary shares in issued during the year ended December 31, 2022, the share subdivision effective upon the Listing was deemed to have been in issue since January 1, 2022 which has been reflected in the calculations of the basic and diluted (loss) earnings per share.

	Year ended December 31,	
	2023	2022
(Loss) Profit attributable to owners of the Company (RMB'000)	**(102,259)**	377,309
Weighted average number of ordinary shares in issue	**611,140,135**	574,789,163
Basic (loss) earnings per share attributable to owners of the Company (expressed in RMB per share)	**(0.17)**	0.66

(b) Diluted (loss) earnings per share

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

The Company had no dilutive potential shares in issue during the years ended December 31, 2023 and 2022, as a result, the diluted (loss) earnings per share for the years ended December 31, 2023 and 2022 are the same as basic (loss) earnings per share for the same years.

13 PROPERTY AND EQUIPMENT

	Properties and building RMB'000	Medical equipment RMB'000	Vehicles, furniture and office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Right-of-use assets for land use rights RMB'000	Right-of-use assets for leased properties, equipment and motor vehicles RMB'000	Total RMB'000
As at January 1, 2023								
Cost	46,809	446,713	29,961	159,575	46,334	157,653	136,222	1,023,267
Accumulated depreciation	(19,383)	(182,361)	(15,139)	(43,044)	–	(8,638)	(60,694)	(329,259)
Impairment	–	(188,360)	–	(85,046)	–	–	–	(273,406)
Net book amount	27,426	75,992	14,822	31,485	46,334	149,015	75,528	420,602
Year ended December 31, 2023								
Opening net book amount	27,426	75,992	14,822	31,485	46,334	149,015	75,528	420,602
Additions	–	29,364	7,841	10,302	13,486	–	11,169	72,162
Write-off/Disposals	–	(112)	(1,382)	–	–	–	(27,638)	(29,132)
Transfer	–	–	–	7,007	(7,007)	–	–	–
Depreciation charge	(1,467)	(23,488)	(6,074)	(11,981)	–	(4,135)	(19,566)	(66,711)
Closing net book amount	25,959	81,756	15,207	36,813	52,813	144,880	39,493	396,921
As at December 31, 2023								
Cost	46,809	445,569	34,307	67,561	52,813	157,653	74,788	879,500
Accumulated depreciation	(20,850)	(190,802)	(19,100)	(24,716)	–	(12,773)	(35,295)	(303,536)
Impairment	–	(173,011)	–	(6,032)	–	–	–	(179,043)
Net book amount	25,959	81,756	15,207	36,813	52,813	144,880	39,493	396,921

13 PROPERTY AND EQUIPMENT *(Continued)*

	Properties and building RMB'000	Medical equipment RMB'000	Vehicles, furniture and office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Right-of-use assets for land use rights RMB'000	Right-of-use assets for leased properties, equipment and motor vehicles RMB'000	Total RMB'000
As at January 1, 2022								
Cost	46,809	232,986	23,654	51,832	55,958	157,653	94,633	663,525
Accumulated depreciation	(17,699)	(83,718)	(13,655)	(22,212)	-	(4,549)	(36,492)	(178,325)
Net book amount	29,110	149,268	9,999	29,620	55,958	153,104	58,141	485,200
Year ended December 31, 2022								
Opening net book amount	29,110	149,268	9,999	29,620	55,958	153,104	58,141	485,200
Additions	-	220,940	6,998	72,597	25,522	-	41,589	367,646
Disposals	-	(1,288)	(130)	-	-	-	-	(1,418)
Transfer	-	-	-	35,146	(35,146)	-	-	-
Depreciation charge	(1,684)	(104,568)	(2,045)	(20,832)	-	(4,089)	(24,202)	(157,420)
Impairment	-	(188,360)	-	(85,046)	-	-	-	(273,406)
Closing net book amount	27,426	75,992	14,822	31,485	46,334	149,015	75,528	420,602
As at December 31, 2022								
Cost	46,809	446,713	29,961	159,575	46,334	157,653	136,222	1,023,267
Accumulated depreciation	(19,383)	(182,361)	(15,139)	(43,044)	-	(8,638)	(60,694)	(329,259)
Impairment	-	(188,360)	-	(85,046)	-	-	-	(273,406)
Net book amount	27,426	75,992	14,822	31,485	46,334	149,015	75,528	420,602

Depreciations charged to different expenses categories in the consolidated statement of comprehensive income and capitalised in construction in progress were as follows:

	Year ended December 31,	
	2023 RMB'000	2022 RMB'000
Cost of revenue	**40,493**	107,673
Administrative expenses	**25,050**	42,391
Selling expenses	**1,168**	3,267
	66,711	153,331
Depreciation capitalised in construction in progress	**–**	4,089
Total	**66,711**	157,420

All the properties and buildings were located in the PRC. No buildings were pledged for the Group's borrowings as at December 31, 2023 (2022: same).

As at December 31, 2023, medical equipment and office equipment with carrying amount of RMB51,715,000 were pledged to secure the other borrowing of the Group (Note 26(a)).

13 PROPERTY AND EQUIPMENT *(Continued)*

Impairment testing for property and equipment

The domestic epidemic prevention and control policy was adjusted since December 2022, which had significantly reduced the demand of COVID-19 related testing services nationwide and is expected to result in significant decline of revenues generated from such services in the future. The Group considered the CGUs that related to the diagnostic testing services of COVID-19 had impairment indications and therefore performed impairment test on them. As a result, provision of impairment of RMB273,406,000 was made for PP&E for the year ended December 31, 2022. When any indicators of impairment are identified, PP&E are reviewed for impairment based on each CGU. The CGU is an individual plant or entity. The carrying values of these individual plants or entities were compared to the recoverable amounts of the CGUs, which were based predominantly on value-in-use. As revenue from COVID-19 testing services decreased significantly to zero in 2023, the Group considered the carrying value of COVID-19 related PP&E will not be recoverable from value-in-use or disposal and no reversal of impairment provision was made.

14 INTANGIBLE ASSETS

	Software RMB'000
Year ended December 31, 2023	
Opening net book amount	**3,756**
Additions	**1,221**
Amortisation charge	**(1,609)**
Closing net book amount	**3,368**
As at December 31, 2023	
Cost	**46,908**
Accumulated amortisation	**(43,540)**
Net book amount	**3,368**
Year ended December 31, 2022	
Opening net book amount	5,675
Additions	797
Amortisation charge	(2,716)
Closing net book amount	3,756
As at December 31, 2022	
Cost	45,687
Accumulated amortisation	(41,931)
Net book amount	3,756

14 INTANGIBLE ASSETS *(Continued)*

(a) Amortisation expenses were charged to the following categories in the consolidated statement of comprehensive income:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Cost of revenue	**6**	1,860
Administrative expenses	**1,564**	353
Selling expenses	**39**	503
	1,609	2,716

15 LEASES

(a) Amounts recognized in the consolidated statement of financial position

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Right-of-use assets included in "Property and equipment"		
– Leased properties	**37,241**	74,199
– Leased equipment and motor vehicles	**2,252**	1,329
– Land use rights	**144,880**	149,015
	184,373	224,543
Lease liabilities		
– Current	**16,116**	36,658
– Non-current	**25,882**	57,677
	41,998	94,335

15 LEASES *(Continued)*

(b) Amounts recognized in profit or loss

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Depreciation charge of right-of-use assets		
– Leased properties	**18,699**	23,088
– Leased equipment and motor vehicles	**867**	1,114
– Land use rights	**4,135**	4,089
	23,701	28,291
Less: capitalised in construction in progress	**–**	(4,089)
	23,701	24,202
Interest expense (included in finance costs)	**2,888**	3,725
Expenses relating to short term and low-value leases (included in cost of revenue and administrative expenses)	**8,877**	7,253

The Group leased properties for operations of its clinical laboratories. Besides, the Group leased certain diagnostic testing machines and motor vehicles. No extension options are included in such property, equipment and motor vehicle leases across the Group.

The total cash outflow for leases (including short-term leases) during the year ended December 31, 2023 amounted to RMB30,357,000 (2022: RMB29,565,000).

At December 31, 2023, the Group was committed to RMB1,397,000 (2022: RMB1,882,000) for short-term leases.

16 DEFERRED INCOME TAX

The movements of the Group's net deferred tax assets is as follows:

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
As 1 January	**51,789**	29,339
(Charged) Credited to profit or loss	**(6,503)**	16,159
Credited to other comprehensive income	**2,458**	6,291
	47,744	51,789

Recognized deferred tax assets and liabilities:

	Assets		Liabilities	
	2023	2022	**2023**	2022
	RMB'000	RMB'000	**RMB'000**	RMB'000
Impairment of PP&E and impairment of inventories	**30,752**	52,772	**–**	–
Depreciation allowance	**–**	–	**36,509**	52,208
Expected credit loss on receivables	**56,510**	39,892	**–**	–
Leases	**976**	3,852	**–**	–
Fair value changes of financial assets at FVOCI and FVTPL	**–**	–	**4,157**	5,488
Deferred revenue	**–**	247	**–**	–
Tax losses	**172**	12,722	**–**	–
	88,410	109,485	**40,666**	57,696
Offsetting	**(36,578)**	(55,574)	**(36,578)**	(55,574)
Deferred tax assets, net	**51,832**	53,911	**4,088**	2,122

16 DEFERRED INCOME TAX *(Continued)*

As at December 31, 2023, the Group did not recognize deferred income tax assets in respect of cumulative tax losses of RMB293,845,000 (December 31, 2022: RMB36,294,000), as it is not probable that future taxable profits will be available in the relevant tax jurisdiction and entity to utilise these tax losses.

Unused tax losses for which no deferred income tax asset was recognized are expiring as follows:

	As at December 31,	
	2023	2022
Expiry year	**RMB'000**	RMB'000
2023	**–**	7,859
2024	**4,058**	7,853
2025	**3,481**	5,624
2026	**2,676**	2,834
2027	**3,365**	12,124
2028	**280,265**	–
	293,845	36,294

According to CIT Law, a withholding income tax of 10% will be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividends out of profits earned after January 1, 2008. A lower 5% withholding income tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong and fulfil requirements under the tax treaty agreements between the relevant authorities of the PRC and Hong Kong.

As at December 31, 2023, the Group has unrecognized deferred income tax liabilities amounted to RMB65,353,700 (2022: RMB84,604,000), which arising from undistributed profits from the Group's subsidiaries in the PRC. No provision has been made in respect of such withholding tax as the directors of the Company have confirmed that such profits will not be distributed in the foreseeable future. Unremitted earnings of these subsidiaries in the PRC amounted to approximately RMB653,537,000 (2022: RMB846,036,000).

17 INVENTORIES

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Reagent and pharmaceuticals	**18,021**	41,317

Inventories consumed recognized as expenses and were included in "cost of revenue" and "administrative expenses" were as follows:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Cost of revenue	**203,954**	1,170,988
Administrative expenses	**19,013**	28,259
	222,967	1,199,247

During the year ended December 31, 2023, impairment of inventories to net realisable value amounted to RMB388,000 (2022: RMB38,907,000). These were recognized as an expense during the years ended December 31, 2023 and 2022 and included in "cost of revenue" in the consolidated statement of comprehensive income.

18 FINANCIAL INSTRUMENTS BY CATEGORY

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Financial assets		
Financial assets at amortised cost:		
Trade and bill receivables (Note 19)	**1,515,500**	2,432,165
Other receivables (Note 20)	**21,188**	116,712
Restricted cash (Note 22)	**405,475**	145,926
Cash and cash equivalents (Note 22)	**1,244,120**	787,742
	3,186,283	3,482,545
Financial assets at fair value:		
Financial assets at FVOCI (Note 21(a))	**74,508**	84,341
Financial assets at FVTPL (Note 21(b))	**788,962**	802,810
	863,470	887,151
	4,049,753	4,369,696
Financial liabilities		
Financial liabilities at amortised cost:		
Trade and other payables excluding non-financial liabilities (Note 27)	**905,587**	1,361,739
Borrowings (Note 26)	**1,347,841**	691,784
Lease liabilities (Note 15)	**41,998**	94,335
	2,295,426	2,147,858

19 TRADE AND BILL RECEIVABLES

	As at December 31, 2023 RMB'000	2022 RMB'000
Trade receivables		
– Third parties	**1,850,931**	2,671,922
– Related parties (Note 29(d))	**477**	369
	1,851,408	2,672,291
Less: allowance for impairment of trade receivables (Note 3.1.2)	**(337,619)**	(240,126)
	1,513,789	2,432,165
Bill receivables	**1,711**	–
	1,515,500	2,432,165

(a) As at December 31, 2023 and 2022, the aging analysis of the trade receivables based on recognition date were as follows:

	As at December 31, 2023 RMB'000	2022 RMB'000
Up to 180 days	**269,570**	1,655,558
181 days to 1 year	**264,210**	734,521
1 to 2 years	**1,194,507**	235,267
2 to 3 years	**98,027**	24,233
More than 3 years	**25,094**	22,712
	1,851,408	2,672,291

(b) The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9 (Note 3.1.2).

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

20 PREPAYMENTS AND OTHER RECEIVABLES

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Included in current assets		
Prepayments		
– Prepayments to third party suppliers	**6,583**	4,684
– Other tax recoverable	**2,982**	2,719
	9,565	7,403
Other receivables		
– Monies kept in RSU Trustee	**4,517**	–
– Loan receivable (a)	**–**	100,000
– Deposits receivables	**12,591**	9,699
– Cash advance to employees	**710**	474
– Amounts due from related parties (Note 29(d))	**1,535**	1,470
	19,353	111,643
Less: allowance for impairment of other receivables (Note 3.1.2)	**(361)**	(297)
	18,992	111,346
	28,557	118,749
Included in non-current assets		
Prepayments		
– Prepayment for equipment to third party suppliers	**2,592**	10,292
Other receivables		
– Deposits	**2,196**	5,366
	4,788	15,658
Total	**33,345**	134,407

(a) Loan receivable at December 31, 2022 represented RMB100,000,000 due from an independent third party company at fixed interest rate of 3.8% per annum with redemption right which had been redeemed in March 2023.

(b) Save as disclosed in note 3.1.1, the Group's other receivables are denominated in RMB. The carrying amounts of other receivables approximated their fair values.

21 FINANCIAL ASSETS AT FAIR VALUE

(a) Financial assets at FVOCI

The Group's financial assets at FVOCI included equity investments which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognize in this category. These are strategic investments and the Group considers this classification to be more relevant.

Financial assets measured at FVOCI included the following:

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Unlisted		
– Private company A (i)	**72,331**	81,599
– Private company B (ii)	**2,177**	2,742
	74,508	84,341

(i) Private company A is engaged in investment activities and portfolio management, with concentration in healthcare industry. Private company A is also an associate of Da An Gene.

(ii) Private company B invested an equity instrument which is principally engaged in sales of medical imaging diagnostic equipment.

The table below shows the amounts recognized in other comprehensive loss:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Loss recognized in other comprehensive loss	**(9,833)**	(25,163)
Less: income tax impact	**2,458**	6,291
	(7,375)	(18,872)

21 FINANCIAL ASSETS AT FAIR VALUE *(Continued)*

(b) Financial assets at FVTPL

The Group's financial assets at FVTPL comprised debt investments and equity investments that do not qualify for measurement at either amortised cost or FVOCI.

Financial assets measured at FVTPL include the following:

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Included in current assets		
Investment in private funds		
– Managed by investment manager A (i)	**–**	302,783
– Managed by investment manager B (i)	**–**	98,382
– Managed by investment manager C (ii)	**–**	206,493
– Managed by investment manager D (i)	**152,701**	–
– Managed by investment manager E (i)	**172,868**	–
– Managed by investment manager F (iii)	**90,748**	–
Debt instrument (iv)	**–**	34,911
Structured notes (v)	**210,291**	–
	626,608	642,569
Included in non-current assets		
Unlisted companies (vi)	**162,354**	160,241
	788,962	802,810

(i) The investments represented two (2022: four) portfolios managed by two (2022: two) different investment managers. Investment objectives were to invest in cash or cash equivalents, national debt and other money market instruments.

(ii) The investment at December 31, 2022 represented two private fund. Investment objectives were mainly to invest in listed securities, portfolio funds, government or company bonds and cash or cash equivalents.

(iii) A wholly-owned subsidiary of the Company subscribed to a private fund. The investment objectives were mainly to invest in products with fixed revenue type and cash or cash equivalents and bonds and equity securities.

(iv) Debt instrument at December 31, 2022 represented a redeemable corporate bond held indirectly through a private fund. The Company was the sole subscriber and deemed to have control over the assets portfolio and accordingly consolidated the private fund. Details of consolidated structured entity is discussed in note 21(d)(i) to the consolidated financial statements. In March 2023, the Group redeemed the investment.

21 FINANCIAL ASSETS AT FAIR VALUE *(Continued)*

(b) Financial assets at FVTPL *(Continued)*

(v) The investment represented an investment in a structured note (2022: Nil) with maturity date on 18 May 2024 which can be early redeemed upon application. The structured note is related to the investment in funds in the markets and with a purpose of cash management.

(vi) Investments in unlisted companies included investments in four (2022: same) private companies, which are principally engaged in research and sales of medical instruments, provision of consultancy services and investment management.

Amounts recognized in profit or loss

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Fair value gains recognized in profit or loss	**13,962**	17,257

(c) Fair value, impairment and risk exposure

Information about the methods and assumptions used in determining fair value have been set out in Note 3.3.

(d) Structured entities

The Group is principally involved with structured entities through financial investments in private funds. The Group determines whether or not to consolidate these structured entities depending on whether the Group has control over them.

(i) Consolidated structured entity

Structured entity consolidated by the Group is a private fund and the investment objectives were to invest in cash or cash equivalents, national debt and other money market instruments. The Group controls the entity because the Group has power over, is exposed to, or has rights to, variable returns from its involvement with this entity and has the ability to use its power over this entity to affect the amount of the Group's returns. As at December 31, 2023, the balance of this consolidated structured entity was Nil (December 31, 2022: RMB146,626,000), which were included in financial assets at FVTPL of Nil (2022: RMB34,911,000) (Note 21(b) (iv)) and restricted cash of Nil (2022: RMB111,715,000) (Note 22(a) (i)).

21 FINANCIAL ASSETS AT FAIR VALUE *(Continued)*

(d) Structured entities *(Continued)*

(ii) Unconsolidated structured entities

The Group invests in certain unconsolidated structured entities mainly consisting of private funds managed and operated by other independent third parties. These structured entities generally finance the purchase of assets by issuing units of the products. The Group does not control these structured entities and therefore, these structured entities are not consolidated.

The table below sets out the carrying amount of interests in unconsolidated structured entities held by the Group through investment:

	As at December 31, 2023	
	Carrying value RMB'000	**Maximum exposure to loss RMB'000**
Financial assets at FVTPL		
– Investment in private funds	**416,317**	**416,317**

	As at December 31, 2022	
	Carrying value RMB'000	Maximum exposure to loss RMB'000
Financial assets at FVTPL		
– Investment in private funds	607,658	607,658

22 CASH AND CASH EQUIVALENTS

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Cash at bank	**1,649,574**	933,648
Cash on hand	**21**	20
	1,649,595	933,668
Less: Restricted cash in relation to:		
– Pledged time deposits for bank loans (Note 26)	**(374,193)**	–
– Deposits for letter of guarantee	**(20,766)**	(21,118)
– Deposits of investment funds (a)	**–**	(123,310)
– Others	**(10,516)**	(1,498)
	(405,475)	(145,926)
Cash and cash equivalents	**1,244,120**	787,742

(a) Deposits of investment funds included:

(i) The Company invested USD21 million in a private fund in 2022. An investment manager was appointed to manage and decide its investment portfolio. The Company was the sole subscriber and deemed to have control over the assets portfolio and accordingly consolidated the private fund. As at December 31, 2022, the private fund held cash deposits of RMB111,715,000 in the custodian's account. The Group had redeemed the investment in March 2023.

(ii) A subsidiary of the Company as sole subscriber invested in an asset management product in 2022. As at December 31, 2022, the product held cash deposits of RMB11,595,000 in the custodian's account. The Group had redeemed the investment in March 2023.

23 SHARE CAPITAL AND SHARE PREMIUM AND SHARES HELD FOR EMPLOYEE SHARE SCHEME

(a) Share capital and share premium

	Number of ordinary shares	Share capital USD	Equivalent share capital RMB'000	Share premium RMB'000	Total RMB'000
Authorised					
As at January 1, 2022	500,000,000	50,000	338		
Addition (i)	24,500,000,000	–	–		
As at December 31, 2022 and 2023	25,000,000,000	50,000	338		
Issued and paid					
Balance at January 1, 2022	9,999,990	1,000	7	21,119	21,126
Effect of the share subdivision (i)	489,999,510	–	–	–	–
Shares issued upon the completion of initial public offering, net of transaction costs (ii)	113,188,500	226	2	716,347	716,349
Shares issued upon partial exercise of the over-allotment option, net of transaction costs (ii)	8,062,500	16	*	53,899	53,899
Dividends (Note 33)	–	–	–	(48,126)	(48,126)
Balance at December 31, 2022	621,250,500	1,242	9	743,239	743,248
Dividends (Note 33)	–	–	–	(121,934)	(121,934)
Balance at December 31, 2023 (iii)	**621,250,500**	**1,242**	**9**	**621,305**	**621,314**

* The balance represents an amount less than RMB1,000.

(i) Immediately prior to the Listing, a share subdivision was approved by the shareholders of the Company, pursuant to which, each issued and unissued share capital was subdivided into fifty shares with par value USD0.000002 each. The share subdivision has been completed and became effective on May 18, 2022.

(ii) On May 18, 2022, the Company issued 113,188,500 new shares at the price of HK$7.89 per share as a result of the completion of the global offering (the "Global Offering"). 8,062,500 shares were issued upon the exercise of the over-allotment option in connection with the Global Offering on June 10, 2022 at the same price. Gross proceeds from the issue amounted to HK$956,670,390 (equivalent to RMB821,779,031). After deducting the underwriting fees and other capitalised listing expenses, net proceeds from the issue amounted to RMB770,248,071, of which, RMB1,634 was recorded as share capital and RMB770,246,437 was recorded as share premium.

(iii) As at December 31, 2023, the total number of issued ordinary shares of the Company included 15,101,643 shares (2022: Nil) held under the 2022 RSU Scheme (Note 23(b)).

23 SHARE CAPITAL AND SHARE PREMIUM AND SHARES HELD FOR EMPLOYEE SHARE SCHEME *(Continued)*

(b) Shares held for employee share scheme

(i) On November 23, 2022, the Board approved the adoption of the 2022 RSU Scheme which was amended on July 28, 2023. Due to the implementation of the 2022 RSU Scheme of the Group, the Company has set up a structured entity ("Share Scheme Trust"), and its particulars are as follows:

Structured entity	Principal activities
Share Scheme Trust	Administering and holding the Company's shares acquired for the 2022 RSU Scheme which are set up for the benefits of selected participant(s) of the Scheme

As the Company has the power to govern the financial and operating policies of the Share Scheme Trust and can derive benefits from the contributions of the selected participant(s) who are awarded with the shares by the 2022 RSU Scheme, the directors of the Company consider that it is appropriate to consolidate the Share Scheme Trust. The vesting condition of the 2022 RSU Scheme is that the employee remains employed up to the grant date. The following table presents the changes in shares held for the employee share scheme.

	Number of Ordinary shares	Cost of acquired shares RMB'000
Balance at January 1, 2023	**–**	**–**
Acquisition of shares by the Share Scheme Trust	**15,101,643**	**188,524**
Balance at December 31, 2023	**15,101,643**	**188,524**

(ii) During the year ended December 31, 2023, 15,101,643 shares were purchased from open market by the Share Scheme Trust at a total consideration of approximately HK$207,898,000 (equivalent to approximately RMB188,524,000) (2022: Nil).

(iii) The consideration paid by the Share Scheme Trust for purchasing the Company's shares from the market, including any directly attributable incremental cost, is presented as "Shares held for employee share scheme" and the amount is deducted from total equity.

(iv) When the Share Scheme Trust transfers the Company's shares to the awardees upon vesting, the related costs of the awarded shares vested are credited to "Shares held for employee share scheme", with a corresponding adjustment made to "Share premium".

(v) Subsequent to the end of reporting period, 15,101,500 shares were granted to employees of the Group with a vesting period of 6 years from the grant date. The share price of the Company's share on the grant date was RMB10.20 (equivalent to HK$11.22) per share.

24 OTHER RESERVES

	Capitalisation reserve (a) RMB'000	Reserve for financial assets at FVOCI RMB'000	Capital reserve (b) RMB'000	Total RMB'000
Balance at January 1, 2022	930,845	24,537	–	955,382
Changes in fair value of financial assets at FVOCI, net of tax	–	(18,872)	–	(18,872)
Balance at December 31, 2022 and at January 1, 2023	**930,845**	**5,665**	**–**	**936,510**
Capital withdrawn from non-controlling interests	**–**	**–**	**(19)**	**(19)**
Changes in fair value of financial assets at FVOCI, net of tax	**–**	**(7,375)**	**–**	**(7,375)**
Transfer of loss on disposal of financial assets at FVOCI to retained earnings	**–**	**576**	**–**	**576**
Balance at December 31, 2023	**930,845**	**(1,134)**	**(19)**	**929,692**

(a) Capitalisation reserves represented the registered capital and capital premium of Yunkang Industry attributable to owners of the Company in aggregate of approximately RMB931 million as at January 1, 2018, as the Group obtained the equity interest in Yunkang Industry through a series of contractual arrangements other than any cash considerations, which were considered as deemed contribution from the shareholders.

(b) Capital reserve includes the difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received, on changes in the Group's interests in subsidiaries that do not result in the Group losing control.

25 DEFERRED REVENUE

	As at December 31,	
	2023 RMB'000	2022 RMB'000
Government grant-to be realized within 12 months	**–**	1,645

The deferred revenue mainly represented the government grants obtained to assist the Group's research and development activities with attached conditions from the government. The deferred revenue was recognized in profit or loss when the Group complied with the attached conditions.

26 BORROWINGS

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Borrowings included in non-current liabilities:		
Bank borrowings		
– Guaranteed (a)	**334,133**	233,115
Other borrowings		
– Secured and/or guaranteed (a)	**201,352**	143,086
Less: current portion of long-term borrowings	**(341,891)**	(48,086)
	193,594	328,115
Borrowings included in current liabilities:		
Bank borrowings	**812,356**	315,583
– Guaranteed (a)	**812,356**	297,000
– Unsecured	**–**	18,583
Current portion of long-term borrowings	**341,891**	48,086
	1,154,247	363,669
Total borrowings	**1,347,841**	691,784
Bank borrowings repayable		
– Within 1 year	**1,077,789**	317,583
– Between 1 and 2 years	**50,300**	231,115
– Between 2 and 5 years	**18,400**	–
	1,146,489	548,698
Other borrowings repayable		
– Within 1 year	**76,458**	46,086
– Between 1 and 2 years	**78,033**	31,000
– Between 2 and 5 years	**14,861**	33,000
– Over 5 years	**32,000**	33,000
	201,352	143,086

26 BORROWINGS *(Continued)*

(a) The secured and guaranteed situations of the bank and other borrowings are as follows:

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Bank borrowings		
Guaranteed by a subsidiary of the Group	**813,878**	520,115
Guaranteed by a third party	**–**	10,000
Guaranteed by a subsidiary of the Group and secured by time deposit	**246,520**	–
Guaranteed by a shareholder and a subsidiary of the Group and secured by time deposit (Note 29(e))	**86,091**	–
	1,146,489	530,115
Other borrowings		
Guaranteed by a subsidiary of the Group	**–**	4,663
Guaranteed by a subsidiary of the Group and secured by property and equipment (Note 13)	**164,352**	100,423
Others (c)	**37,000**	38,000
	201,352	143,086

(b) As at December 31, 2023, the effective interest rate of the borrowings was 4.31% per annum (December 31, 2022: 3.73%).

(c) Pursuant to terms as stipulated in the relevant investment agreement, Yunkang Industry does not have any unconditional right not to delivering cash to settle the repurchase obligation. As such, the investment made by CDB Development Fund in Guangzhou Daan has fulfilled the criteria of financial liabilities under relevant accounting standards and has been recognized as a borrowing in these consolidated financial statements and the Group has 100% equity interests in Guangzhou Daan. As at December 31, 2023, the outstanding balance of the relevant borrowing was RMB37,000,000 (2022: RMB38,000,000) and the registered interest held by CDB Development Fund in Guangzhou Daan was 4.72% (2022: 4.72%).

27 TRADE AND OTHER PAYABLES

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Trade payables (a)		
– Third parties	**190,937**	520,617
– Related parties (Note 29(d))	**624,898**	680,058
	815,835	1,200,675
Other payables		
– Related parties (Note 29(d))	**35,148**	13,007
– Marketing and promotion expenses payables	**4,410**	60,371
– Decoration expenses payables	**12,858**	35,546
– Accrued expenses	**28,330**	34,202
– Listing expenses payables	**–**	4,522
– Others	**9,006**	13,416
	89,752	161,064
Accrued staff costs	**48,681**	105,805
Other taxes payable	**21,216**	24,535
	975,484	1,492,079

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

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Up to 6 months	**115,856**	717,981
6 months to 1 year	**49,623**	348,081
1 to 2 years	**562,902**	131,332
2 to 3 years	**84,531**	2,806
More than 3 years	**2,923**	475
	815,835	1,200,675

(b) As at December 31, 2023, the carrying amounts of trade and other payables approximated their fair values (December 31, 2022: same).

28 CASH FLOW INFORMATION

(a) Cash generated from operations

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
(Loss) Profit before income tax	**(86,811)**	443,424
Adjustments for:		
– Finance costs	**43,560**	20,307
– Net impairment losses on financial assets	**104,617**	187,620
– Depreciation of property and equipment	**66,711**	153,331
– Amortisation of intangible assets	**1,609**	2,716
– Fair value gains on financial assets at FVTPL	**(13,962)**	(17,257)
– Impairment of property and equipment	**–**	273,406
– Written down of inventories	**388**	38,907
– Gains on redemption of financial assets at FVTPL	**(36,561)**	–
– Loss on lease modification	**19**	–
– (Gain) Loss on disposal of equipment	**(1,396)**	536
– Losses on disposal of subsidiaries	**–**	455
– Effect of foreign exchange rate changes	**5,354**	(1,545)
– Others	**–**	375
	83,528	1,102,275
Changes in working capital:		
– Inventories	**22,908**	(38,527)
– Trade receivables	**812,112**	(1,794,364)
– Prepayments and other receivables	**134**	(6,777)
– Restricted cash	**–**	8,530
– Trade and other payables	**(531,970)**	943,466
– Deferred revenue	**(1,645)**	(5,105)
Cash generated from operations	**385,067**	209,498

28 CASH FLOW INFORMATION *(Continued)*

(b) The reconciliation of liabilities arising from financial activities is as follow:

	Borrowings and interest payables RMB'000	Lease liabilities RMB'000	Total RMB'000
As at January 1, 2023	**691,888**	**94,335**	**786,223**
Additions of leases	**–**	**8,836**	**8,836**
Accrued interest expense	**40,672**	**2,888**	**43,560**
Termination of leases	**–**	**(27,619)**	**(27,619)**
Transfer to other payables	**–**	**(15,375)**	**(15,375)**
Effective of foreign exchange rate changes	**7,281**	**–**	**7,281**
Cash flows	**608,000**	**(21,067)**	**586,933**
As at December 31, 2023	**1,347,841**	**41,998**	**1,389,839**
As at January 1, 2022	291,424	71,333	362,757
Additions of leases	–	41,589	41,589
Accrued interest expense	16,126	3,725	19,851
Cash flows	384,338	(22,312)	362,026
As at December 31, 2022	691,888	94,335	786,223

29 RELATED PARTY TRANSACTIONS AND BALANCES

(a) Names and relationships with related parties

Save as disclosed elsewhere in these consolidated financial statements, the directors of the Company are of the view that the following parties/companies were related parties that had transactions or balances with the Group during the years ended December 31, 2023 and 2022:

Name of related parties	Relationship with the Group
Mr. Zhang Yong	The controlling shareholder of the Group
Da An Gene and its subsidiaries ("Da An Group")	A substantial shareholder with significant influence to the Group
Zhuhai Hengqin Shiwei Kangjie Life Science Research Institute Co., Ltd. and its subsidiaries ("Shiwei Kangjie")	Company controlled by Mr. Zhang Yong

(b) Key management compensation

	Year ended December 31, 2023 RMB'000	2022 RMB'000
Salaries, bonuses and other benefits	**2,914**	4,908
Contribution to pension scheme	**468**	457
	3,382	5,365

29 RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(c) Transactions with related parties

	Year ended December 31, 2023 RMB'000	2022 RMB'000
Revenue from		
– Da An Group	**136**	3,171
Purchase of goods		
– Da An Group	**17,945**	563,219
Purchase of services		
– Da An Group	**13,256**	13,404
Interest expense paid/payable to related parties on lease liabilities		
– Da An Group	**–**	97
Commercial property management service fee to related parties		
– Da An Group	**3,501**	3,279

All of the transactions above were carried out in the normal course of the Group's business and on terms as agreed between the transacting parties.

(d) Balances with related parties

	As at December 31, 2023 RMB'000	2022 RMB'000
Amounts due from related parties		
Trade		
Trade receivables		
– Da An Group	**477**	369
Other receivables		
– Da An Group	**1,535**	1,470
	2,012	1,839
Amounts due to related parties		
Trade		
Trade payables		
– Da An Group	**(624,898)**	(680,058)
Other payables		
– Da An Group	**(35,148)**	(13,007)
	(660,046)	(693,065)
Lease liabilities due to related parties		
– Da An Group	**–**	(13,531)

29 RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(d) Balances with related parties *(Continued)*

As at December 31, 2023, the balances due from/to related parties are unsecured, interest-free, and are denominated in RMB. Other receivables primarily include deposits in relation to transactions with related parties. Other payables primarily represent commercial property management service fees payable in relation to the leased offices and amount payable for equipment purchased from Da An Group.

(e) Guarantees from a related party

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Guarantees provided by		
– Zhang Yong	**86,091**	–

As at December 31, 2023, there were no guarantees or pledges provided to the related parties (December 31, 2022: same).

(f) Other information with the related parties

On December 9, 2015, Guangzhou Daan Clinical Laboratory Center Co. Ltd. ("Guangzhou Daan"), a subsidiary of the Group, Yunkang Industry, CDB Development Fund Co., Ltd. ("CDB Development Fund") and Da An Gene entered into an investment agreement ("Investment Agreement"). Pursuant to which CDB Development Fund agreed to contribute RMB40 million to Guangzhou Daan in exchange of 6.18% (it was diluted to 4.72% subsequently) of shareholding of Guangzhou Daan. Pursuant to the Investment Agreement, Yunkang Industry is obliged to repurchase the equity interest of Guangzhou Daan held by CDB Development Fund in accordance with the schedule stated in the Investment Agreement and/or Da An Gene may repurchase the relevant equity interest of Guangzhou Daan when Yunkang Industry is unable to repurchase the same in accordance with the provisions in the Investment Agreement.

30 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	As at December 31, 2023 RMB'000	2022 RMB'000
Assets			
Non-current assets			
Investment in a subsidiary		**805,465**	805,465
Financial assets at FVTPL		**101,629**	105,209
		907,094	910,674
Current assets			
Other receivables		**10,489**	–
Financial assets at FVTPL		**535,860**	642,569
Amount due from shareholders		**–**	35
Restricted cash		**–**	111,716
Cash and cash equivalents		**263,346**	2,466
		809,695	756,786
Total assets		**1,716,789**	1,667,460
Equity			
Equity attributable to owners of the Company			
Share capital and share premium	23(a)	**621,314**	743,248
Shares held for employee share scheme	23(b)	**(188,524)**	–
Other reserves	30(a)	**784,346**	784,346
Accumulated losses	30(a)	**(37,101)**	(62,988)
Total equity		**1,180,035**	1,464,606
Liabilities			
Current liabilities			
Borrowings		**334,215**	–
Amount due to subsidiaries		**202,539**	198,305
Other payables		**–**	4,549
		536,754	202,854
Total liabilities		**536,754**	202,854
Total equity and liabilities		**1,716,789**	1,667,460

The statement of financial position of the Company was approved by the Board of Directors of the Company on March 25, 2024 and were signed on its behalf by:

Zhang Yong
Director

Xie Shaohua
Director

30 STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

(a) Reserves movements of the Company

	Other reserves RMB'000	Accumulated losses RMB'000	Total RMB'000
As at January 1, 2022	784,346	(45,528)	738,818
Total comprehensive loss			
Loss for the year	–	(17,460)	(17,460)
As at December 31, 2022	784,346	(62,988)	721,358
As at January 1, 2023	**784,346**	**(62,988)**	**721,358**
Total comprehensive income			
Profit for the year	**–**	**25,887**	**25,887**
As at December 31, 2023	**784,346**	**(37,101)**	**747,245**

31 SUBSIDIARIES

The Group's principal subsidiaries at December 31, 2023 are set out below:

Name of the Subsidiaries	Place of incorporation and kind of legal entity	Issued and paid-up capital	Principal activities	Equity interest held by the Group as at December 31, 2023	2022
Directly held by the Company					
YK Healthcare (Hong Kong) Limited	Hong Kong, limited liability company	–	Investment holding	**100%**	100%
Indirectly held by the Company					
Guangzhou Yunkang Health Technology Co., Ltd. (廣州雲康健康科技有限公司)	PRC, limited liability company	–	Investment holding	**100%**	100%
Yunkang Industry Investment Co. Ltd. (雲康健康產業投資股份有限公司) (a)	PRC, limited liability company	RMB920,000,000	Investment holding	**100%**	100%
Hefei Daan Medical Laboratory Co., Ltd. (合肥達安醫學檢驗實驗室有限公司) (a)	PRC, limited liability company	RMB10,000,000	Diagnostic testing	**100%**	100%
Chengdu Gaoxin Daan Medical Laboratory Co., Ltd. (成都高新達安醫學檢驗有限公司) (a)	PRC, limited liability company	RMB20,000,000	Diagnostic testing	**100%**	100%

31 SUBSIDIARIES *(Continued)*

Name of the Subsidiaries	Place of incorporation and kind of legal entity	Issued and paid-up capital	Principal activities	Equity interest held by the Group as at December 31, 2023	2022
Guangzhou Daan Clinical Laboratory Center Co. Ltd. (廣州達安臨床檢驗中心有限公司) (a) (Note 29(f))	PRC, limited liability company	RMB26,586,000	Diagnostic testing	**100%**	100%
Shanghai Daan Medical Laboratory Co., Ltd. (上海達安醫學檢驗所有限公司) (a)	PRC, limited liability company	RMB50,000,000	Diagnostic testing	**100%**	100%
Jiangxi Yunkang Daan Medical Laboratory Co., Ltd. (江西雲康達安醫學檢驗實驗室有限公司) (a)	PRC, limited liability company	RMB10,000,000	Diagnostic testing	**100%**	100%
Kunming Gaoxin Daan Medical Laboratory Co., Ltd. (昆明高新達安醫學檢驗所有限公司) (a)	PRC, limited liability company	RMB10,000,000	Diagnostic testing	**100%**	100%
Yunkang Lingnan (Guangzhou) Medical Health Technology Development Co., Ltd. (蕓康嶺楠(廣州)醫療健康科技發展有限公司) (a)	PRC, limited liability company	RMB100,000,000	Project investment	**100%**	100%
Yunkang Health Industry Group Co., Ltd. (雲康健康產業集團有限公司)	PRC, limited liability company	RMB200,505,100	Information technology, medical logistics and medical equipment procurement services	**100%**	100%
Guangzhou Yunxie Baiyi Biomedical Technology Co., Ltd. (廣州雲協佰醫生物醫療科技有限公司)	PRC, limited liability company	RMB10,000,000	Reagent and medical equipment procurement services	**100%**	100%
Sichuan Yunkang Xinchuan Health Technology Co., Ltd. (四川雲康新川健康科技有限公司)	PRC, limited liability company	RMB100,000,000	Information technology and healthcare technology development	**100%**	100%

(a) The Company does not have legal ownership in equity of these subsidiaries. Nevertheless, under certain contractual agreements entered into with the registered owners of these subsidiaries, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, such contractual agreements also transfer the risks and rewards of these companies to the Company and/or its other legally owned subsidiaries. As a result, they are presented as controlled subsidiaries of the Company.

As at December 31, 2023, no equity interest of the above principal subsidiaries was held by non-controlling interests (December 31, 2022: same).

31 SUBSIDIARIES *(Continued)*

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, materially contribute to the results of the Group or hold a material portion of the assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

32 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments

The remuneration of each director during the years ended December 31, 2023 and 2022 is set out below:

	Directors' fees RMB'000	Salaries, bonuses and other benefit RMB'000	Contribution to pension scheme RMB'000	Total RMB'000
Year ended December 31, 2023				
Executive Director				
Mr. Zhang Yong	227	24	15	266
Non-executive Directors				
Mr. Guo Yunzhao (i)	151	–	–	151
Mr. Wang Ruihua (iii)	227	–	–	227
Ms. Huang Luo (iv)	–	–	–	–
Mr. Wang Pinghui (viii)	76	–	–	76
	681	24	15	720
Independent Non-executive Directors				
Mr. Yu Shiyou (ii)	227	–	–	227
Mr. Yang Hongwei (x)	–	–	–	–
Mr. Xie Shaohua (ii)	227	–	–	227
Mr. Lan Fenghui (ix)	76	–	–	76
	530	–	–	530
	1,211	24	15	1,250

32 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

	Directors' fees RMB'000	Salaries, bonuses and other benefit RMB'000	Contribution to pension scheme RMB'000	Total RMB'000
Year ended December 31, 2022				
Executive Director				
Mr. Zhang Yong	139	24	15	178
Non-executive Directors				
Mr. Zhou Xinyu (vii)	–	–	–	–
Mr. Guo Yunzhao (i)	133	–	–	133
Mr. Zhou Weiqun (vi)	53	–	–	53
Mr. He Yunshao (v)	–	–	–	–
Ms. Huang Luo (iv)	–	–	–	–
	325	–	–	364
Independent Non-executive Directors				
Mr. Yu Shiyou (ii)	133	–	–	133
Mr. Yang Hongwei (x)	–	–	–	–
Mr. Xie Shaohua (ii)	133	–	–	133
Mr. Wang Ruihua (iii)	106	–	–	106
	372	–	–	372
	697	24	15	736

(i) Mr. Guo Yunzhao has resigned since August 30, 2023.

(ii) Mr. Yu Shiyou and Mr. Xie Shaohua were appointed as the Company's independent non-executive directors on April 1, 2022.

(iii) Mr. Wang Ruihua was appointed as the Company's independent non-executive director on July 11, 2022.

(iv) Ms. Huang Luo was appointed as the Company's non-executive director on August 11, 2022.

(v) Mr. He Yunshao has resigned as non-executive director of the Company since April 15, 2022.

(vi) Mr. Zhou Weiqun has resigned as non-executive director of the Company since July 11, 2022.

(vii) Mr. Zhou Xinyu has resigned as non-executive director of the Company since August 11, 2022.

32 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

(viii) Mr. Wang Pinghui was appointed as the Company's non-executive director on August 30, 2023.

(ix) Mr. Lan Fenghui was appointed as the Company's independent non-executive director on August 30, 2023.

(x) Mr. Yang Hongwei was appointed as the Company's independent non-executive director on April 1, 2022 and has resigned since August 30, 2023.

(b) Directors' retirement and termination benefits

No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiaries' undertaking during the year ended December 31, 2023 (2022: same).

No payment was made to the directors as compensation for early termination of appointment during the year ended December 31, 2023 (2022: same).

(c) Consideration provided to their parties for making available directors' services

No payment was made to any former employers of the directors for making available the services of them as a director of the Company during the year ended December 31, 2023 (2022: same).

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There were no other loans, quasi-loans and other dealings in favour of the directors, controlled bodies corporate by and connected entities with such directors during the year ended December 31, 2023 (2022: same).

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the year ended December, 31 2023 (2022: same).

(f) No emolument was paid or payable by the Group to any of the directors and chief executive of the Company as inducement to join or upon joining the Group or as compensation for loss of office during the years ended December 31, 2023 and 2022. None of the directors and chief executive of the Company waived or agreed to waive any emoluments during the years ended December 31, 2023 and 2022.

33 DIVIDENDS

	2023 **RMB'000**	2022 RMB'000
Dividends approved and paid during the year		
Interim dividend in respect of 2022 (a)	**–**	48,126
Final dividend in respect of 2022 (b)	**124,972**	–
	124,972	48,126

(a) Interim dividend

The Board did not declare any interim dividend for the six months ended June 30, 2023. The Board declared an interim dividend for the six months ended June 30, 2022 of HK$0.088 per share on August 11, 2022 and the interim dividend was paid in September 2022 with total amount of HK$54,670,000 (equivalent to RMB48,126,000).

(b) Final dividend

A final dividend of HK$0.02 per share for the year ended December 31, 2023, totalling HK$12,425,000 (equivalent to RMB11,274,000) has been proposed by the Board of the Company on March 25, 2024 and is subject to the approval of the forthcoming annual general meeting to be held on June 28, 2024.

These dividends will be distributed out of the Company's share premium. The consolidated financial statements have not reflected the proposed dividend payable.

A final dividend of HK$0.22 per share for the year ended December 31, 2022 was approved at the annual general meeting held on June 28, 2023. The final dividends totalling HK$136,675,000 (equivalent to RMB124,972,000) were paid on August 25, 2023, among which the amount of HK$3,322,000 (equivalent to RMB3,038,000) is attributable to the shares held by the trustee for the 2022 RSU Scheme. These dividends were distributed out of the Company's share premium.

34 COMMITMENTS

Significant capital expenditure contracted for at the end of the reporting period but not recognized as liabilities is as follows:

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Contracted but not provided for:		
– Property and equipment	**298,187**	309,418

As at December 31, 2023 and 2022, the Group's capital commitments mainly related to the construction on the land in Guangzhou acquired in 2019.

35 CONTINGENT LIABILITY

At the end of the reporting period, the Group had the following contingent liability that is not disclosed elsewhere in the consolidated financial statements:

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Legal claim	**19,199**	–

A legal dispute against the Group initiated by a subcontracting service provider of the Group (the "Legal Dispute") is outstanding up to the date of this report. The Legal Dispute is about disagreement on the determination basis of (i) the subcontracting service fee and (ii) the related penalty for the delay in payment for the subcontracting service fee. As at December 31, 2023, the contingent liability of RMB19,199,000 was related to the Legal Dispute which represented the difference between the claimed amount by the supplier with the amount of related trade payable recorded by the Group.

Five Year Financial Summary

	2019 RMB'000	2020 RMB'000	2021 RMB'000	2022 RMB'000	**2023** **RMB'000**
Results					
Revenue	677,826	1,200,320	1,696,740	3,756,201	**891,500**
Gross profit	299,194	655,895	899,137	1,307,730	**325,786**
(Loss)/Profit before income tax	(10,632)	322,828	451,220	443,424	**(86,811)**
(Loss)/Profit for the year	(31,544)	260,172	381,893	373,949	**(101,889)**
(Loss)/Profit attributable to owners of the Company:	(30,957)	255,334	380,932	377,309	**(102,259)**
Assets and liabilities					
Total assets	1,269,246	1,956,731	2,455,413	4,906,977	**4,532,052**
Total liabilities	478,839	890,347	1,003,833	2,367,398	**2,412,195**
Total equity	790,407	1,066,384	1,451,580	2,539,579	**2,119,857**
Non-controlling interests	14,732	18,476	(124)	7,316	**7,705**