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## **Yunkang Group Limited**

**云康集团有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2325)**

### **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2023**

The board (the “**Board**”) of directors (the “**Directors**”) of Yunkang Group Limited (the “**Company**” or our “**Company**”, together with its subsidiaries and the consolidated affiliated entities, the “**Group**” or our “**Group**”) is pleased to announce the audited consolidated results of the Group for the year ended December 31, 2023 (the “**Reporting Period**”), together with the comparative figures for the year ended December 31, 2022.

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

## FINANCIAL HIGHLIGHTS

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

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

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.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended December 31,	
	Note	2023	2022
		RMB'000	RMB'000
Revenue	3	891,500	3,756,201
Cost of revenue		(565,714)	(2,448,471)
<b>Gross profit</b>		<b>325,786</b>	1,307,730
Selling expenses		(150,855)	(312,005)
Administrative expenses		(191,636)	(386,673)
Net impairment losses on financial assets		(104,617)	(187,620)
Other income	4	9,127	20,047
Other gains/(losses) – net	5	45,657	(185)
Fair value changes on financial assets at fair value through profit or loss	10	13,962	17,257
<b>Operating (loss)/profit</b>		<b>(52,576)</b>	458,551
Finance income		9,325	5,180
Finance costs		(43,560)	(20,307)
Finance costs – net		(34,235)	(15,127)
<b>(Loss)/profit before income tax</b>		<b>(86,811)</b>	443,424
Income tax expenses	6	(15,078)	(69,475)
<b>(Loss)/profit for the year</b>		<b>(101,889)</b>	373,949
<b>Other comprehensive loss, net of tax</b>			
Items that will not be reclassified to profit or loss			
– Change in the fair value of financial assets at fair value through other comprehensive income, net of tax		(7,375)	(18,872)
<b>Total comprehensive (loss)/income for the year</b>		<b>(109,264)</b>	355,077

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended December 31,	
	Note	2023	2022
		RMB'000	RMB'000
<b>(Loss)/profit attributable to:</b>			
– Owners of the Company		(102,259)	377,309
– Non-controlling interests		370	(3,360)
		<u>(101,889)</u>	<u>373,949</u>
<b>Total comprehensive (loss)/income attributable to:</b>			
– Owners of the Company		(109,634)	358,437
– Non-controlling interests		370	(3,360)
		<u>(109,264)</u>	<u>355,077</u>
<b>(Loss)/earnings per share for (loss)/profit attributable to owners of the Company</b>			
– Basic and diluted ( <i>in RMB</i> )	7	(0.17)	0.66
		<u>(0.17)</u>	<u>0.66</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at December 31,	
	<i>Note</i>	2023	2022
		<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>			
Property and equipment		396,921	420,602
Intangible assets		3,368	3,756
Prepayments and other receivables		4,788	15,658
Financial assets at fair value through other comprehensive income (“FVOCI”)	10	74,508	84,341
Financial assets at fair value through profit or loss (“FVTPL”)	10	162,354	160,241
Deferred income tax assets		51,832	53,911
		<u>693,771</u>	<u>738,509</u>
<b>Current assets</b>			
Inventories		18,021	41,317
Trade and bills receivables	9	1,515,500	2,432,165
Prepayments and other receivables		28,557	118,749
Financial assets at FVTPL	10	626,608	642,569
Restricted cash	11	405,475	145,926
Cash and cash equivalents	11	1,244,120	787,742
		<u>3,838,281</u>	<u>4,168,468</u>
<b>Total assets</b>		<u><u>4,532,052</u></u>	<u><u>4,906,977</u></u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at December 31,	
	Note	2023	2022
		RMB'000	RMB'000
<b>Equity attributable to owners of the Company</b>			
Share capital and share premium	12(a)	621,314	743,248
Shares held for employee share scheme	12(b)	(188,524)	–
Other reserves		929,692	936,510
Retained earnings		749,670	852,505
		<u>2,112,152</u>	<u>2,532,263</u>
<b>Non-controlling interests</b>		<u>7,705</u>	<u>7,316</u>
<b>Total equity</b>		<u>2,119,857</u>	<u>2,539,579</u>
<b>Non-current liabilities</b>			
Borrowings		193,594	328,115
Lease liabilities		25,882	57,677
Deferred income tax liabilities		4,088	2,122
		<u>223,564</u>	<u>387,914</u>
<b>Current liabilities</b>			
Borrowings		1,154,247	363,669
Trade and other payables	13	975,484	1,492,079
Current income tax liabilities		42,784	85,433
Lease liabilities		16,116	36,658
Deferred revenue		–	1,645
		<u>2,188,631</u>	<u>1,979,484</u>
<b>Total liabilities</b>		<u>2,412,195</u>	<u>2,367,398</u>
<b>Total equity and liabilities</b>		<u><u>4,532,052</u></u>	<u><u>4,906,977</u></u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

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**” or “**China**”).

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

These financial statements are presented in Renminbi (“**RMB**”), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on March 25, 2024.

## 2 SUMMARY OF MATERIAL ACCOUNTING POLICIES

### 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.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

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



### ***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:

		<b>Effective for annual periods beginning on or after</b>
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, the other amendments are not expected to be relevant to the Group.

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

## **3 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**

	<b>Year ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
	<b><i>RMB’000</i></b>	<b><i>RMB’000</i></b>
<i>Recognized at a point in time:</i>		
Diagnostic services	<b>891,500</b>	<b>3,756,201</b>

(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
	<u>891,500</u>	<u>3,756,201</u>

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.

(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, which 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.

**4 OTHER INCOME**

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Government grants (Note (a))	8,797	19,804
Others	330	243
	<u>9,127</u>	<u>20,047</u>

(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.

**5 OTHER GAINS/(LOSSES) – NET**

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Gain on redemption of financial assets at FVTPL	36,561	–
Exchange gain, net	5,286	1,545
Gain/(loss) on disposal of equipment	1,396	(536)
Others	2,414	(1,194)
	<u>45,657</u>	<u>(185)</u>

## 6 INCOME TAX EXPENSES

	Year ended December 31,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax	8,575	85,634
Deferred income tax	6,503	(16,159)
	<u>15,078</u>	<u>69,475</u>

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

### Cayman Islands

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

### Hong Kong

Hong Kong profits tax rate is 16.5%. Since April 1, 2018, 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).

### 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% as at 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%.

## 7 (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 issue 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
	RMB'000	RMB'000
(Loss)/profit attributable to owners of the Company (RMB'000)	<u>(102,259)</u>	<u>377,309</u>
Weighted average number of ordinary shares in issue	<u>611,140,135</u>	<u>574,789,163</u>
Basic (loss)/earnings per share attributable to owners of the Company (expressed in RMB per share)	<u>(0.17)</u>	<u>0.66</u>

### (b) Diluted (loss)/earnings per share

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.

## 8 DIVIDENDS

### 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).

### 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 by the Board of the Company at the annual general meeting held on June 28, 2023. The final dividend of totaling 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.

**9 TRADE AND BILL RECEIVABLES**

	<b>As at December 31,</b>	
	<b>2023</b>	2022
	<b>RMB'000</b>	<b>RMB'000</b>
Trade receivables		
– Third parties	<b>1,850,931</b>	2,671,922
– Related parties	<b>477</b>	369
	<b>1,851,408</b>	2,672,291
Less: allowance for impairment of trade receivables	<b>(337,619)</b>	(240,126)
	<b>1,513,789</b>	2,432,165
Bill receivables	<b>1,711</b>	–
	<b>1,515,500</b>	2,432,165

- (a) As at December 31, 2023 and 2022, the ageing analysis of the trade receivables based on recognition date were follows:

	<b>As at December 31,</b>	
	<b>2023</b>	2022
	<b>RMB'000</b>	<b>RMB'000</b>
Up to 180 days	<b>269,570</b>	1,655,558
181 days to 1 year	<b>264,210</b>	734,521
1 to 2 years	<b>1,194,507</b>	235,267
2 to 3 years	<b>98,027</b>	24,233
More than 3 years	<b>25,094</b>	22,712
	<b>1,851,408</b>	2,672,291

## 10 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
	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted		
– Private company A ( <i>Note (i)</i> )	72,331	81,599
– Private company B ( <i>Note (ii)</i> )	2,177	2,742
	<u>74,508</u>	<u>84,341</u>

- (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 Daan Gene Co., Ltd.
- (ii) Private company B invested an equity instrument which is principally engaged in sales of medical imaging diagnostic equipment.

### (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 amortized cost or FVOCI.

Financial assets measured at FVTPL include the following:

	As at December 31,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Included in current assets:</b>		
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	–
	<u>626,608</u>	642,569
<b>Included in non-current assets:</b>		
Unlisted companies (vi)	162,354	160,241
	<u>788,962</u>	<u>802,810</u>

- (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 funds. 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. In March 2023, the Group redeemed the investment.
- (v) The investment represented an investment in a structured note (2022: nil) with maturity date on May 18, 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

	<b>Year ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Fair value gains recognized in profit or loss	<b>13,962</b>	<b>17,257</b>

## 11 CASH AND CASH EQUIVALENTS

	<b>As at December 31,</b>	
	<b>2023</b>	<b>2022</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Cash at bank	<b>1,649,574</b>	933,648
Cash on hand	<b>21</b>	20
	<b>1,649,595</b>	933,668
Less: Restricted cash in relation to:		
– Pledged time deposits for bank loans	<b>(374,193)</b>	–
– Deposits for letter of guarantee	<b>(20,766)</b>	(21,118)
– Deposits of investment funds	–	(123,310)
– Others	<b>(10,516)</b>	(1,498)
	<b>(405,475)</b>	(145,926)
Cash and cash equivalents	<b>1,244,120</b>	787,742

12 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
<b>Authorized</b>					
As at January 1, 2022	500,000,000	50,000	338		
Addition (i)	24,500,000,000	–	–		
<b>As at December 31, 2022 and 2023</b>	<b>25,000,000,000</b>	<b>50,000</b>	<b>338</b>		
<b>Issued and paid</b>					
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	–	–	–	(48,126)	(48,126)
<b>Balance at December 31, 2022</b>	<b>621,250,500</b>	<b>1,242</b>	<b>9</b>	<b>743,239</b>	<b>743,248</b>
Dividends	–	–	–	(121,934)	(121,934)
<b>Balance as at December 31, 2023 (iii)</b>	<b>621,250,500</b>	<b>1,242</b>	<b>9</b>	<b>621,305</b>	<b>621,314</b>

\* 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 capitalized 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.



**(b) Shares held for employee share scheme**

- (i) On November 23, 2022, the Board approved the adoption of the 2022 RSU Scheme. 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:

<b>Structured entity</b>	<b>Principal activities</b>
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 under the 2022 RSU Scheme, the directors of the Company consider that it is appropriate to consolidate the Share Scheme Trust. The following table presents the changes in shares held for employee share scheme.

	<b>Number of Ordinary shares</b>	<b>Cost of acquired shares RMB'000</b>
<b>Balance at January 1, 2023</b>	–	–
Acquisition of shares by the Share Scheme Trust	15,101,643	188,524
<b>Balance at December 31, 2023</b>	<b>15,101,643</b>	<b>188,524</b>

- (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 the Reporting Period, 15,101,500 shares were granted to employees of the Group with a vesting period of six years from the grant date. The share price of the Company’s shares on the grant date was RMB10.20 (equivalent to HK\$11.22) per share.

### 13 TRADE AND OTHER PAYABLES

	As at December 31,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Trade payables (Note (a))</b>		
– Third parties	190,937	520,617
– Related parties	<u>624,898</u>	<u>680,058</u>
	<u>815,835</u>	<u>1,200,675</u>
<b>Other payables</b>		
– Related parties	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	<u>9,006</u>	<u>13,416</u>
	<u>89,752</u>	<u>161,064</u>
<b>Accrued staff costs</b>	48,681	105,805
<b>Other taxes payable</b>	<u>21,216</u>	<u>24,535</u>
	<u>975,484</u>	<u>1,492,079</u>

(a) The ageing analysis of the trade payables based on goods and services received was follows:

	As at December 31,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
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	<u>2,923</u>	<u>475</u>
	<u>815,835</u>	<u>1,200,675</u>

### 14 SUBSEQUENT EVENTS

Save as disclosed in this announcement, there were no material subsequent events after December 31, 2023.

## MANAGEMENT DISCUSSION AND ANALYSIS

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 artificial intelligence (“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 independent clinical laboratories (“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, quantitative polymerase chain reaction (“PCR”), fluorescence in situ hybridization, flow cytometry, next-generation sequencing (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 research & development (“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 medical 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 College of American Pathologist (“CAP”), the Clinical and Laboratory Standards Institute (“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 of 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 of 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 Rules Governing the Listing of Securities on the Stock Exchange (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:

	<b>For the year ended December 31,</b>		
	<b>2023</b>	2022	Change
	<b><i>RMB’000</i></b>	<i>RMB’000</i>	
<i>Recognized at a point in time:</i>			
– Diagnostic outsourcing services	<b>413,615</b>	1,944,173	(78.7)%
– Diagnostic testing services for medical institution alliances	<b>430,874</b>	1,680,559	(74.4)%
– Diagnostic testing services for non-medical institutions	<b>47,011</b>	131,469	(64.2)%
	<b>891,500</b>	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 year ended December 31, 2023, as compared to RMB20.0 million for 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 year ended December 31, 2022 to RMB55.3 million for 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 designated 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 10 to the consolidated financial statements in this announcement.

## **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 <sup>(1)</sup>	36.5%	34.8%

  

	As at December 31,	
	2023	2022
Current ratio <sup>(2)</sup>	1.75	2.11
Quick ratio <sup>(3)</sup>	1.75	2.08
Debt to asset ratio <sup>(4)</sup>	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 date of this announcement. 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 date of this announcement.

## **Future Plans for Material Investments and Capital Assets**

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

## **Employees and Remuneration**

As at 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.

## **OTHER INFORMATION**

### **Compliance with the Code Provisions set out in Part 2 of the Corporate Governance Code in the Appendix C1 of the Listing Rules (the “Corporate Governance Code”)**

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

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

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

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

### **Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers in the Appendix C3 of the Listing Rules (the “Model Code”)**

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

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

## **Purchase, Sale or Redemption of Listed Securities of the Company**

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 during the Reporting Period.

## **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 annual general meeting to be held on Friday, June 28, 2024 (the “**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.

## **AUDIT COMMITTEE**

The Company has established the audit committee (the “**Audit Committee**”) under the Board with written terms of reference in compliance with the Corporate Governance Code. The Audit Committee consists of one non-executive Director and two independent non-executive Directors, namely Dr. Wang Ruihua, Mr. Yu Shiyong and Mr. Xie Shaohua (Chairman).

The Audit Committee has reviewed the consolidated financial statements for the year ended December 31, 2023 of the Group. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control measures with senior management members. The Audit Committee does not have any disagreement with the accounting treatment adopted by the Company.

## **SCOPE OF WORK OF THE AUDITOR**

The figures in respect of this announcement for the Group’s consolidated statement of financial position, consolidated statement of comprehensive income, and the related notes thereon for the year ended December 31, 2023 have been agreed by the Company’s external auditor, Mazars CPA Limited (“**Mazars**”), to the amounts set out in the Group’s audited consolidated financial statements for the year ended December 31, 2023. The work performed by Mazars in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by Mazars in this announcement.

## **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), totalling HK\$12,425,000, to Shareholders whose name 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 final 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.

## **PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This annual results announcement is published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.yunkanghealth.com](http://www.yunkanghealth.com)).

The annual report for the year ended December 31, 2023 containing all the information required by the Listing Rules will be published on the websites of the Stock Exchange and the Company in due course.

## **APPRECIATION**

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

By order of the Board  
**Yunkang Group Limited**  
**Zhang Yong**  
*Chairman*

Guangzhou, the PRC  
March 25, 2024

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