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YUNKANG GROUP LIMITED

云康集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2325)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2022

The board (the “**Board**”) of directors (the “**Directors**”) of Yunkang Group Limited (the “**Company**” or our “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company, its subsidiaries and the Consolidated Affiliated Entities (as defined in the Company’s prospectus dated May 5, 2022 (the “**Prospectus**”)) (hereinafter collectively referred to as the “**Group**” or our “**Group**”) for the six months ended June 30, 2022 (the “**Reporting Period**”), which have been reviewed by the Company’s audit committee (the “**Audit Committee**”) and have been approved by the Board on August 11, 2022.

FINANCIAL HIGHLIGHTS

	Six months ended June 30,		Change
	2022	2021	
	<i>RMB'000</i>	<i>RMB'000</i>	
	(Unaudited)	(Unaudited)	
Revenue	1,378,656	758,030	81.9%
– Diagnostic outsourcing services	680,362	483,209	40.8%
– Diagnostic testing services for medical institution alliances	650,700	244,449	166.2%
– Diagnostic testing services for non-medical institutions	47,594	30,372	56.7%
Cost of revenue	(727,584)	(371,974)	95.6%
Gross profit	651,072	386,056	68.6%
Profit before tax	283,500	181,452	56.2%
Profit for the period	234,761	157,323	49.2%
Profit attributable to owners of the Company:	234,363	156,273	50.0%

	Six months ended June 30,		Change
	2022	2021	
	RMB	RMB	
	(Unaudited)	(Unaudited)	
Earnings per share			
Basic	0.44	0.32	37.5%
Diluted	0.44	0.32	37.5%

During the Reporting Period, the Group recorded a revenue of RMB1,378.7 million, representing an increase of 81.9% compared to the same period in 2021. This increase was primarily attributable to the rapid growth of the Group's diagnostic testing services during the Reporting Period driven by the promotion of healthcare policy in mainland China and the Group's professional medical diagnostic capabilities, outstanding capabilities of standardization and innovative business models.

During the Reporting Period, the revenue generated from diagnostic outsourcing services reached RMB680.4 million, representing an increase of 40.8% compared to the same period in 2021, primarily due to the performance of key products of the Group maintained robust growth during the Reporting Period; in particular, business in key disease areas such as tumor, infectious diseases and blood diseases were on high-quality development trajectory, driving further growth in revenue from the diagnostic outsourcing services.

During the Reporting Period, the revenue generated from diagnostic testing services for medical institution alliances reached RMB650.7 million, representing an increase of 166.2% compared to the same period in 2021. The increase was primarily due to (i) the increased number of on-site diagnostic centers from 275 as of December 31, 2021 to 350 as of June 30, 2022; and (ii) the further improved services capability and expanded service scope of the on-site diagnostic centers after the preliminary construction and operation, resulting in a rapid growth of the average revenue of unit on-site diagnostic centers. As of June 30, 2022, the semi-annual average revenue of the on-site diagnostic centers was RMB1.9 million (a full-year average revenue of RMB2.2 million in 2021). As a crucial business of the Group, diagnostic testing services for medical institution alliances are constituting an increasing proportion of the Group's total revenue which increased from 32.2% for the six months ended June 30, 2021 to 47.2% for the six months ended June 30, 2022.

Diagnostic testing services for non-medical institutions are mainly provided through our outpatient clinics, serving individual customers who are general public and employees of our non-medical institution customers. During the Reporting Period, revenue generated from diagnostic testing services for non-medical institutions reached RMB47.6 million, representing an increase of 56.7% compared to the same period in 2021. The increase was primarily due to the significant increase in demand for COVID-19 tests by individual customers and non-medical institution customers under the ongoing impact of COVID-19 epidemic.

During the Reporting Period, the Group recorded a profit of RMB234.8 million, representing an increase of 49.2% compared to the same period in 2021. The increase was primarily due to the increase of diagnostic testing services for medical institution alliances. Through establishing on-site diagnostic centers, all the member hospitals within the same medical institution alliances can benefit from the standardized and professional diagnostic testing services provided and patients can be referred and directed to the most suitable medical institutions within the medical institution alliances based on their diagnostic testing results. Therefore, diagnostic testing services for medical institution alliances is one of the most effective measures to enhance the diagnostic capacities and service efficiency of medical institution alliances, and can bring positive impact on the Group's profitability on an on-going basis.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2022

		For the six months ended June 30,	
		2022	2021
		<i>RMB'000</i>	<i>RMB'000</i>
	<i>Notes</i>	(Unaudited)	(Unaudited)
Continuing operations			
Revenue	4	1,378,656	758,030
Cost of revenue		(727,584)	(371,974)
		<hr/>	<hr/>
Gross profit		651,072	386,056
Other income and gains, net	5	4,878	2,423
Selling expenses		(219,076)	(120,992)
Administrative expenses		(128,630)	(71,189)
Net impairment losses on financial assets		(20,917)	(9,943)
		<hr/>	<hr/>
Operating profit		287,327	186,355
Finance costs, net	6	(3,827)	(4,903)
		<hr/>	<hr/>
Profit before tax		283,500	181,452
Income tax expenses	7	(48,739)	(33,524)
		<hr/>	<hr/>
Profit from continuing operations		234,761	147,928
Profit from discontinued operations		–	9,395
		<hr/>	<hr/>
Profit for the period		234,761	157,323
		<hr/> <hr/>	<hr/> <hr/>
Profit attributable to:			
– Owners of the Company		234,363	156,273
– Non-controlling interests		398	1,050
		<hr/>	<hr/>
		234,761	157,323
		<hr/> <hr/>	<hr/> <hr/>

	For the six months ended	
	June 30,	
	2022	2021
	RMB'000	<i>RMB'000</i>
<i>Notes</i>	(Unaudited)	(Unaudited)
Other comprehensive income, net of tax		
Items that will not be reclassified to profit or loss:		
– Changes in fair value of financial assets designated at fair value through other comprehensive income, net of tax	–	1,652
	<u>–</u>	<u>1,652</u>
Total comprehensive income for the period	234,761	158,975
	<u>234,761</u>	<u>158,975</u>
Total comprehensive income attributable to:		
– Owners of the Company	234,363	157,752
– Non-controlling interests	398	1,223
	<u>234,761</u>	<u>158,975</u>
	<u>234,761</u>	<u>158,975</u>
Earnings per share attributable to the owners of the Company (RMB)		
	<i>8</i>	
Basic and diluted (RMB)		
– From continuing operations	0.44	0.30
– From discontinued operations	–	0.02
	<u>0.44</u>	<u>0.32</u>
	<u>0.44</u>	<u>0.32</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2022

		As at June 30, 2022	As at December 31, 2021
		<i>RMB'000</i>	<i>RMB'000</i>
	<i>Notes</i>	(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment		641,875	485,200
Intangible assets		3,749	5,675
Trade and other receivables and prepayments	9	6,141	17,227
Financial assets at fair value through other comprehensive income (“FVOCI”)		186,004	110,004
Financial assets at fair value through profit or loss (“FVTPL”)		159,573	58,243
Deferred income tax assets		33,606	35,809
		<u>1,030,948</u>	<u>712,158</u>
Current assets			
Inventories		74,229	41,697
Trade and other receivables and prepayments	9	1,559,492	869,717
Financial assets at FVTPL		121,183	–
Restricted cash		22,186	31,146
Cash and cash equivalents		1,083,540	800,695
		<u>2,860,630</u>	<u>1,743,255</u>
Current liabilities			
Borrowings		250,035	208,322
Trade and other payables	10	855,226	556,663
Lease liabilities		19,723	27,171
Deferred revenue		6,750	6,750
Current income tax liabilities		54,305	71,932
		<u>1,186,039</u>	<u>870,838</u>

	As at June 30, 2022	As at December 31, 2021
	<i>RMB'000</i>	<i>RMB'000</i>
<i>Notes</i>	(Unaudited)	(Audited)
NET CURRENT ASSETS	1,674,591	872,417
Non-current liabilities		
Borrowings	192,106	82,363
Lease liabilities	50,374	44,162
Deferred income tax liabilities	6,470	6,470
	248,950	132,995
NET ASSETS	2,456,589	1,451,580
Equity		
Share capital and premium	791,374	21,126
Other reserves	955,382	955,382
Retained earnings	709,559	475,196
Non-controlling interests	274	(124)
	2,456,589	1,451,580

NOTES TO INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2022

1. General information

The Company was incorporated in the Cayman Islands on July 20, 2018 as an exempted company with limited liability under the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman KY1-1205, Cayman Islands.

The Company is an investment holding company, and its subsidiaries, are primarily engaged in the provision of diagnostic testing services (the “**Diagnostic Business**” or the “**Continuing Business**”) 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**”).

The Group carried out a group reorganization (the “**Reorganization**”) in preparation for the Listing. Details of the Reorganization are set out in the paragraph headed “Reorganization” of section 1.2 of the Accountant's Report included in the Prospectus.

2. Basis of preparation and accounting policies

The interim financial information for the six months ended June 30, 2022 has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange Limited (the “**Listing Rules**”), including compliance with Hong Kong Accounting Standard 34 Interim Financial Reporting (“**HKAS 34**”), issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). The interim financial report was authorized for issue on August 11, 2022.

The Interim Financial Information does not include all the notes of the type normally included in an annual financial statement. Accordingly, it should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2021, which have been prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”) as issued by the HKICPA and any public announcements made by the Company during the Reporting Period.

The accounting policies applied to the preparation of the Interim Financial Information are consistent with those applied in the preparation of the Group's consolidated financial statements for the year ended December 31, 2021.

The adoption of the new and amended standards which are effective for annual reporting period commencing January 1, 2022 does not have any significant impact on the Group's significant accounting policies and the presentation of the Interim Financial Information.

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

3. Critical accounting estimates and judgement

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

In preparing the Interim Financial Information, the significant judgements made by management in apply the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied in the preparation of the Group's consolidated financial statements for the year ended December 31, 2021.

4. Revenue

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

	For the six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<i>Recognised at a point in time</i>		
Diagnostic outsourcing services	680,362	483,209
Diagnostic testing services for medical institution alliances	650,700	244,449
Diagnostic testing services for non-medical institutions	47,594	30,372
	<u>1,378,656</u>	<u>758,030</u>

- (b) Information about major customers

All the revenues derived from single external customers were less than 10% of the Group's total revenues during the Reporting Period (2021: same).

5. Other income and gains, net

	For the six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government grants (a)	5,068	2,092
Loss on disposal of equipment	(40)	(39)
Fair value gains of FVTPL, net	–	765
Others	(150)	(395)
	<u>4,878</u>	<u>2,423</u>

- (a) The government grants include those grants from the local government in recognition of the entitlement of high and new technology enterprises, and the medical institutions' contribution to local economy's development. There are no unfulfilled conditions or other contingencies attached to these grants.

6. Finance costs, net

	For the six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<i>Finance costs, net</i>		
Bank interest income	(4,153)	(4,223)
Interest on interest-bearing borrowings	6,319	8,604
Interest on lease liabilities	1,661	522
	<u>3,827</u>	<u>4,903</u>

7. Income taxes

	For six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax	52,890	35,494
Deferred income tax	(4,151)	(1,970)
	<u>48,739</u>	<u>33,524</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

Under the two-tiered profits tax regime, Hong Kong Profits Tax rate is 8.25% for assessable profits on the first HK\$2 million and 16.5% for any assessable profits in excess. No Hong Kong Profits Tax was provided for as there was no estimated assessable profits that was subject to Hong Kong Profits Tax during the interim reporting period.

PRC Corporate Income Tax ("CIT")

CIT was made on the estimated assessable profits of the entities within the Group incorporated in the PRC and was calculated in accordance with the relevant tax rules and regulations of the PRC after considering the available tax refunds and allowances. The general CIT rate is 25% for the six months ended June 30, 2022 and 2021.

Certain entities within the Group, which generated most of the Group's profits, have been approved as high technology enterprises under the relevant tax rules and regulations, and accordingly, are subjected to a reduced preferential CIT rate of 15% during the periods presented.

Certain of the Group's entities in PRC meet the standards for small enterprises under the relevant tax rules and regulations, and are subjected to a preferential CIT rate.

8. Earnings per share

(a) Basic earnings per share

The basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the six months ended June 30, 2022 and 2021. In determining the weighted average number of ordinary shares in issued, the share subdivision effective upon the Listing was deemed to have been in issue since January 1, 2021 which has been reflected in the calculations of the basic and diluted earnings per share.

	For the six months ended June 30,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company		
– From continuing operations	234,363	147,041
– From discontinued operations	–	9,232
	<u>234,363</u>	<u>156,273</u>
	For the six months ended June 30,	
	2022	2021
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares in issue	<u>527,710,850</u>	<u>497,048,111</u>
Basic earnings per share attributable to the owners of the Company (<i>RMB</i>)		
– From continuing operations	0.44	0.30
– From discontinued operations	–	0.02
	<u>0.44</u>	<u>0.32</u>

(b) Diluted earnings per share

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

The Company had no dilutive potential shares in issue, thus the diluted earnings per share for six months ended June 30, 2022 and 2021 are the same as basic earnings per share of the respective periods.

9. Trade and other receivables and prepayments

	As at June 30, 2022 <i>RMB'000</i> (Unaudited)	As at December 31, 2021 <i>RMB'000</i> (Audited)
Trade receivables		
– Third parties	1,608,415	877,604
– Related parties	325	323
	<u>1,608,740</u>	<u>877,927</u>
(Less): impairment loss allowance	(73,262)	(52,626)
	<u>1,535,478</u>	<u>825,301</u>
Prepayments	9,669	29,746
Tax recoverable	2,103	1,966
Deposits	11,074	7,470
Cash advance receivable	2,721	1,418
Amounts due from related parties	4,346	21,220
Others	700	–
	<u>30,613</u>	<u>61,820</u>
(Less): impairment loss allowance	(458)	(177)
	<u>30,155</u>	<u>61,643</u>
	<u><u>1,565,633</u></u>	<u><u>886,944</u></u>

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

	As at June 30, 2022 <i>RMB'000</i> (Unaudited)	As at December 31, 2021 <i>RMB'000</i> (Audited)
Up to 180 days	1,111,174	628,062
181 days to 1 year	368,247	154,530
1 to 2 years	92,341	70,528
2 to 3 years	15,435	12,713
More than 3 years	21,543	12,094
	<u>1,608,740</u>	<u>877,927</u>

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

10. Trade and other payables

	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
Trade Payables		
– Third parties	295,624	168,369
– Related parties	329,341	192,175
	<u>624,965</u>	<u>360,544</u>
Other payables		
– Accruals	201,969	163,548
– Government grants received on behalf of joint applicants	1,272	7,396
– Unpaid consideration of FVOCI	–	6,000
– Others	27,020	19,175
	<u>230,261</u>	<u>196,119</u>
	<u>855,226</u>	<u>556,663</u>

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

	As at June 30, 2022 RMB'000 (Unaudited)	As at December 31, 2021 RMB'000 (Audited)
Up to 180 days	407,896	279,984
181 days to 1 year	144,450	72,811
1 to 2 years	66,694	6,942
2 to 3 years	5,154	216
More than 3 years	771	591
	<u>624,965</u>	<u>360,544</u>

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

11. Dividends

The Board declared an interim dividend for the six months ended June 30, 2022 of HK\$0.088 per Share on August 11, 2022. No dividends have been paid or declared by the Company during six months ended June 30, 2021.

12. Contingent liabilities

As at June 30, 2022, the Group did not have any material contingent liabilities.

13. Subsequent events

Save as disclosed in this announcement, no material subsequent events took place after June 30, 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

We are a comprehensive and professional medical operation service provider in China, which is committed to focusing on the health needs of customers, providing competitive solutions and services, and creating a happy life for the public. The Group has gradually become a leading medical operation platform through professional medical diagnosis services, strong standardization capabilities, and innovative business model of diagnostic testing services for medical institution alliances. According to Frost & Sullivan, China's medical operation service market is expected to grow from RMB30,694.9 million in 2020 to RMB47,946.1 million in 2025 at a compound annual growth rate (“CAGR”) of 9.3%. 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. As at June 30, 2022, the Group's revenue reached RMB1,378.7 million, representing a year-on-year increase of 81.9%, and the overall gross profit margin was 47.2%. The Group's service portfolio maintained high-speed growth, among which the diagnostic testing services for medical institution alliances increased by 166.2% year on year, the diagnostic outsourcing services increased by 40.8% year on year and the diagnostic testing services for non-medical institutions increased by 56.7% year on year.

Diagnostic tests are widely applied in medical treatments as the test results can help identify an individual's medical issues and therefore form the basis for doctors to determine the most suitable treatment plan. Typically, medical institutions conduct certain diagnostic testing items based on their grade, size and other attributes, and consider outsourcing certain diagnostic testing items to qualified testing service institutions based on factors such as quality, cost and efficiency. Starting from 2008, we provide standardized diagnostic testing outsourcing services for medical institutions by performing diagnostic tests and conducting results analysis. Under this business model, medical institutions send test samples to our independent clinical laboratories (“ICLs”) for diagnostic testing and issuance of testing reports and pay us diagnostic service fees based on the types and quantities of tests performed at our ICLs.

In the past decade, to further improve service quality and efficiency of the healthcare system, the PRC government promulgated a series of promotional and encouraging policies to promote and encourage medical institutions to establish medical institution alliances. According to Frost & Sullivan, the widely used term “medical institution alliance” refers to regional healthcare system consisting of primary, secondary and tertiary medical institutions in a given region, under which medical resources, especially diagnostic capacities, can be shared efficiently, aiming to improve the service quality of primary medical institutions, promote the optimal allocation of medical resources, allocate patients to the appropriate hospitals depending on their medical conditions, and balance the uneven distribution of medical resources and diagnosis demands in China. Driven by relevant policies, many medical institutions establish medical institution alliances to improve their overall diagnostic testing capacities and capabilities. They started to establish diagnostic centers at their sites, especially at those lead hospitals in the medical institution alliances. Normally, there will be one lead hospital, usually being a Class III or Class II hospital, that will take lead of the operation of the medical institution alliance and its on-site diagnostic center and provide testing services. Through the on-site diagnostic center, all the member hospitals can benefit from the standardized and professional diagnostic services by delivering test samples to the corresponding lead hospital. Driven by this, the cumulative number of on-site diagnostic centers in China increased from 396 as of the end of 2016 to 916 as of the end of 2020 at a CAGR of 23.3%, according to Frost & Sullivan. Through this model, medical institutions within the same medical institution alliance do not need to deliver test samples to different outsourced ICLs and may perform diagnostic testing

on-site at the corresponding diagnostic center. Further, member hospitals may also enjoy the service of the diagnostic center by sending test samples to the lead hospital and enjoy the same diagnostic service of the lead hospital without separately engaging ICLs. Observing these emerging medical needs, we started to provide diagnostic testing services for medical institution alliances in 2013. Under this model, we provide diagnostic testing services for medical institution alliances at such on-site diagnostic centers in different medical specialties such as pathology, infectious disease and genetic disease. We provide technical supports such as assistance in daily operations, testing equipment and on-site technicians to lead hospitals for establishing and operating on-site diagnostic centers to facilitate the on-site testing services, coordination between lead and member hospitals, and etc. In return, we charge them diagnostic service fees based on the types and quantities of tests performed. Not only are the diagnostic tests conducted at these on-site diagnostic centers, but such collaboration also creates opportunities for our nearby ICLs to provide other diagnostic testing services for the member hospitals within the alliances if the centers are not capable of providing testing services, as per the service and collaboration agreements.

We believe diagnostic expertise and standardized testing capabilities are crucial to our success. We are constantly adopting new technologies for testing, encompassing all major clinical laboratory technology platforms. We have the largest number of ICLs in China that hold both ISO15189 and College of American Pathologists certifications. We are the only execution partner of healthcare business of Clinical and Laboratory Standards Institute (“CLSI”) with the joint objectives to improve the overall performance of clinical laboratories in China. We are also the only branch office of CLSI in China which enable us to enhance our diagnostic capability in accordance with international standards and demonstrating the recognition of our diagnostic testing capabilities.

In conclusion, as a leading medical operation service platform in China, we have established six operation modules (including overall business planning, quality control, hierarchical diagnosis and treatment, marketing, smart logistics and supply chain) and seven technology platforms (including immunological detection, mass spectrometry, polymerase chain reaction (“PCR”), high-throughput sequencing, liquid chip, ultra-micro pathological morphology and digital pathology remote diagnosis) and have 1,500 medical technicians to offer continuous support to quality clinical diagnostic services and operation in dozens of independent laboratories, including central laboratories, provincial comprehensive laboratories and rapid response laboratories, covering more than 3,600 medical institutions and 350 on-site diagnostic centres in medical institution alliances covering 31 provinces, cities and autonomous regions in China.

Business Model

Building on the diagnostic expertise and the established healthcare services network, the Group’s service portfolio mainly includes the following:

- ***Diagnostic outsourcing services***

The Group offers diagnostic outsourcing services to hospitals, other medical institutions and public institutions. Hospitals need to conduct diagnostic testing on patients’ test samples, which, considering the high volume of patients’ test samples overall for various test types, can be time- and cost-consuming. As for other medical institutions and public institutions, they do not have the required capabilities to conduct all diagnostic testing items themselves. For these aforementioned reasons, these institutions generally conduct certain diagnostic testing items based on their grade, size and other attributes, and consider outsourcing certain diagnostic testing items to qualified testing service institutions based on factors such as quality, cost, and efficiency.

The Group operates dozens of independent laboratories, including central laboratories, provincial comprehensive laboratories and regional rapid response laboratories nationwide, covering all major clinical testing technology platforms (such as immunoassay, mass spectrometry, PCR, high-throughput sequencing, liquid chip, ultrastructural pathology and digital pathology remote diagnosis), with an increasing number of more than 2,000 testing items. These laboratories aim at offering diagnostic testing services to the Company’s customers in their located regions or neighbouring provinces and cities, and supporting the Group’s on-site diagnostic centres within medical institution alliances in the local or neighbouring provinces and cities when necessary.

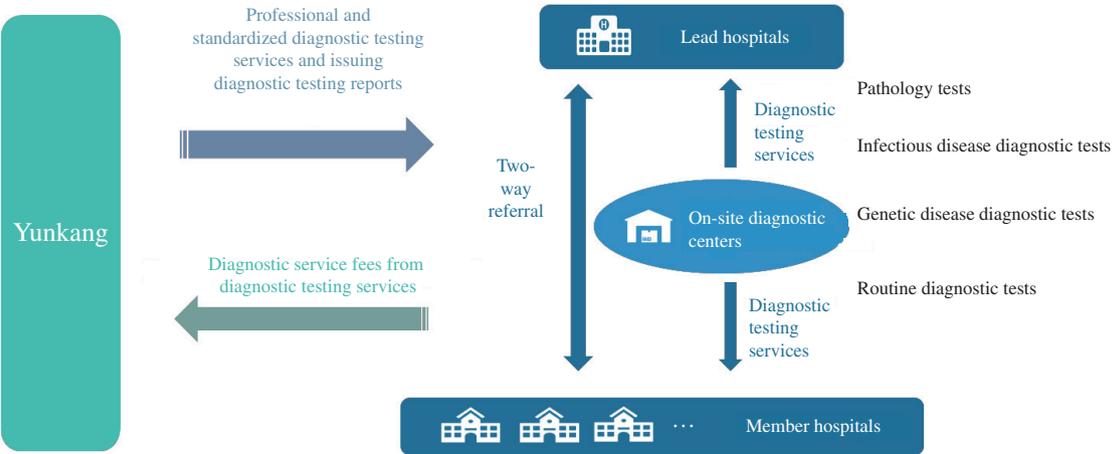
- **Diagnostic testing services for medical institution alliances**

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 lead hospital. 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 the ICLs for testing. Instead, the medical institutions can complete the testing at these diagnostic centers on-site. Relying on our services, member hospitals can offer standardized diagnostic testing services to patients, and, with our issued diagnostic testing reports, better understand the characteristics and conditions of the patients and direct the patients to the most suitable medical institution within the alliances that has the most experiences in handling similar patients.

The Group usually assists lead hospitals in relevant regions to establish on-site diagnosis centres in four main types (i.e. pathology, infectious disease, genetic disease and routine diagnostic tests), and provides lead hospitals with comprehensive quality solutions including testing technologies, professional technicians, core technical equipment, standardized product quality control system, medical cold chain logistics and professional marketing, so as to promote the overall technical level and operational efficiency of the medical institution alliance in the region.

The following diagram illustrates our role and value propositions in our diagnostic testing services for medical institution alliances.

Medical Institution Alliances



The on-site diagnostic center is normally located at the lead hospital. Member hospitals within the same medical institution alliance may also use the diagnostic capacities of the center, as they will also deliver their test samples to the diagnostic center for testing. Therefore, our diagnostic testing services for medical institution alliances assist hospitals to better manage their diagnostic operation by centralizing and utilizing their resources to enhance the diagnostic capacities of the whole medical institution alliance.

As an industry norm, although the service and collaboration agreements for the on-site diagnostic centers normally do not contain an exclusivity clause, medical institutions will normally engage the medical operation service providers such as us to perform other types of diagnostic tests that these diagnostic centers are not capable of performing themselves. Therefore, if the centers are not capable of performing certain diagnostic tests, they may utilize diagnostic capacity of our nearby ICLs. In return, we charge medical institutions for diagnostic testing services based on the number of diagnostic tests performed (either by the on-site diagnostic centers or by our ICLs).

To facilitate the operation of the on-site diagnostic centers, we provide a wide range of technical supports. Such technical supports only create channels for generating revenue from diagnostic testing services but do not generate revenue directly from themselves. We provide these services integrated as a service package to medical institutions based on their needs. This service package mainly include technical supports and daily assistance for operations, which is important because many of the medical institutions do not have sufficient or expertise in diagnostic testing and therefore need the support of medical operation service providers in relation to the provision of testing equipment, staff training, on-site testing expertise and establishment of standardized procedures and protocols, as well as assistance in the logistics of test samples. As a result of our involvement, we are also responsible for issuing diagnostic testing reports to the lead hospital.

Leveraging the continuously development of on-site diagnostic centres networks of medical institution alliance, the diagnostic testing services for medical institution alliances witnessed rapid growth during the recent years. As of December 31, 2018, 2019, 2020 and 2021 and as of June 30, 2022, we assisted in establishing and operating 79, 132, 199, 275 and 350 on-site diagnostic centers, respectively, far exceeding the market's average growth. Meanwhile, we currently have nearly 90 ongoing projects on on-site diagnostic centres with hospitals which have yet to commence operation as the relevant hospitals are currently carrying out internal approval procedures. We believe that the continuous expansion of the network of on-site diagnostic centres will enable us to acquire a larger market share.

- ***Diagnostic testing services for non-medical institutions***

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

Our Competitive Advantage

We believe that the following strengths differentiate us from our competitors, have contributed to our historical success and will drive our future growth: (i) we are a medical operation service provider in China, strategically focused on diagnostic testing to capture significant market opportunities; (ii) we are an expertise-driven platform in China, empowering hospitals to build up international-standard testing systems; (iii) we provide diagnostic testing services for medical institution alliances enabling scalable and rapid business growth; (iv) we established a loyal customer network with broad nationwide coverage; and (v) we have an experienced senior management and high caliber team.

INDUSTRY OVERVIEW

Under the guidance of observing the general strategy of “Guarding against the Imported Cases and Preventing the Resurgence of Domestic Break” (外防輸入、內防反彈) and the general approach of “Dynamic zero-COVID” (動態清零), China has made epidemic prevention and control a regular measure. With the efficient coordination of epidemic prevention and control as well as economic and social development, the effects of various policies and measures to strongly maintain stability in the economy play out successively, and China’s economy is expected to continue to rebound and remain to run within a reasonable range. Since the outbreak of the COVID-19 epidemic in 2020, China’s medical and health system has faced enormous challenges, and overall economic and social stability is directly hinged on strong and effective protection of the lives and health of the people.

In the post-epidemic era, with the continuous boosting of society’s guard against viruses and awareness of health, the development of China’s healthcare service market has sped up. Overall, the year 2022 has witnessed continuous and strengthening support on the policy front: the 2022 Government Work Report (《2022年政府工作報告》) has pointed out the necessity to continue to promote hierarchical diagnosis and treatment and enhance the order of medical treatment, expedite the building of national and provincial regional medical centres, promote the extension of quality medical resources to cities and counties and improve the capacity of primary disease prevention and treatment, so that the people can access better healthcare services nearby.

The Outline of the Fourteenth Five-Year Plan for the National Economic and Social Development and the Long-Range Objectives Through the Year 2035 of the People’s Republic of China (《中華人民共和國國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要》) released in March 2022 has pointed out that deepening the reform of the medical and health system should be the focus, and clearly specified that reform tasks such as the establishment of a modern hospital management system, expansion of the capacity of quality medical resources and balanced regional presence should be expedited. It has also clearly specified that the capacity of public health services should be significantly enhanced, and the quality of medical and health services should achieve continuous improvement by 2025. The capacity of primary medical and health services should be continuously improved, the comprehensive and full-cycle health services system should be gradually enhanced, and the landscape of hierarchical diagnosis and treatment should be gradually established.

- In terms of public health protection, measures are to promote the coordinated development of county-level disease prevention and control institutions and county-level medical alliances, and to improve the laboratory testing capacity of medical and health institutions. Medical and health institutions of high standards should play the role of national bases for the prevention and treatment of major infectious diseases and boost the capacity of promoting outward extension. Other measures include the improvement of network for treatment of infectious diseases in prefectural cities, the advancement of the ability of county hospitals in the testing and treatment of infectious diseases and the enhancement of the capability of primary medical and health institutions in the prevention and control of infectious diseases.
- In terms of strengthening support and assurance for national health, measures are to speed up the establishment of the hierarchical diagnosis and treatment system, to strengthen the grid layout and management of medical groups in cities, to accelerate the promotion of comprehensive medical reform in counties, and to promote the establishment of compact medical and health alliances in counties and the development of specialist alliances and telemedicine collaboration networks.

With the coming into effect successively of a series of supportive policies and an array of subsequent national policies for promoting a stable economy, the healthcare service market in China enjoys tremendous growth potential. According to the Frost & Sullivan Report, from 2016 to 2020, the total healthcare service market in China increased from RMB3,316.6 billion to RMB4,869.0 billion, representing a CAGR of 10.1%. However, the total healthcare expenditure as a percentage of gross domestic product (GDP) in China is relatively low compared with that of developed countries. Going forward, the total healthcare service market in China is expected to reach RMB7,519.6 billion by 2025, which represents a CAGR of 9.1% from 2020 to 2025.

Medical Operation Service Market in China

Medical operation services primarily relate to diagnostic testing services offered to medical institutions which can be divided into diagnostic outsourcing services and diagnostic testing services for medical institution alliances. With the enactment of supportive policies and growing public awareness of healthcare in China, medical operation service market in China has experienced rapid growth, and is expected to increase from RMB30,694.9 million in 2020 to RMB47,946.1 million in 2025 at a CAGR of 9.3%.

Diagnostic Testing Services for Medical Institution Alliances Market in China

Since 2017, as part of the healthcare reform, the PRC government has established a series of policies to support the local integration of China's healthcare system in the context of the hierarchical diagnosis and treatment system. Medical institution alliances refer to regional healthcare systems consisting of primary, secondary and tertiary medical institutions, under which medical resources can be shared efficiently, aiming to improve the service quality of primary medical institutions, promote the optimal allocation of medical resources, allocate patients to the appropriate hospitals depending on their medical conditions, and balance the uneven distribution of medical resources and diagnosis demands in China. In particular, medical institutions are encouraged to strengthen regional medical resources sharing by setting up diagnostic centres to provide services of the same quality for themselves and promote mutual recognition of diagnostic results. As such, medical institution alliances can help the hierarchical diagnosis and treatment system improve its overall medical service capacity. In recent years, the PRC government has promulgated a series of regulations to promote the development of medical institution alliances,

including the Guidance on Promoting Medical Institution Alliances in China (關於推進醫療聯合體建設和發展的指導意見) issued by the State Council in April 2017 and the Interim Measures on Medical Institution Alliance Management (醫療聯合體管理辦法(試行)) issued by the National Health Commission of the PRC in July 2020 (the “Measures”). Pursuant to the Measures, medical institutions are encouraged to join medical institution alliances to enhance the hierarchical diagnosis and treatment system in China.

With the introduction of supportive policies (including the Guidance on Promoting Medical Institution Alliances in China by the State Council in April 2017, the Implementation Methods to Advance COVID-19 Nucleic Acid Tests issued by the Disease Protection Bureau of China Center for Disease Control and Prevention in June 2020; the Interim Measures on Medical Institution Alliance Management issued by the National Health Commission in July 2020; and Notice on Continuous Improvement in the Management of Clinical Use of Antimicrobial Drugs issued by National Health Commission in July 2020) and the growing awareness of healthcare among the population, the total market size of diagnostic testing services for medical institution alliances in China shows an increasing trend. In 2020, the market size of diagnostic testing services for medical institution alliances in China was RMB2,200.9 million, compared with a market size of RMB617.7 million in 2016, representing a CAGR of 37.4% from 2016 to 2020. The market size is expected to grow to RMB5,903.4 million in 2025, representing a CAGR of 21.8% from 2020 to 2025.

Business Outlook and Development Strategy

The Company was successfully listed on the Stock Exchange on May 18, 2022, which provided the Group with a good opportunity to develop in the future. With the help of the capital market, the Group will consolidate its leading position in the medical operation service industry in the PRC. In order to achieve the Group’s long-term goal of helping optimise medical resources allocation and accelerate industry development, the Group adopts active development strategies, including but not limited to the following:

Continue to expand and deepen our medical institution alliance network

The Group plans to ramp up efforts to expand its diagnostic testing services for medical institution alliances business. As at June 30, 2022, there were 350 ongoing projects on on-site diagnostic centres with hospitals. At the same time, the Group currently has nearly 90 ongoing projects on on-site diagnostic centres with hospitals which have yet to commence operation as the relevant hospitals are currently carrying out internal approval procedures. Generally the completion of the internal approval procedures by the medical institutions will take two to three months. For certain hospitals that do not currently have diagnostic capacities, the Group intends to help them improve laboratories and help them manage and operate such laboratories. Over the next few years, the Group plans to primarily focus on pathology, genetic and infectious disease laboratories for medical institution alliances and further improve their precision medicine capability.

The Group also plans to establish more sales and customer service representative offices to serve its customers. The Group believes that increasing the coverage of its representative office network will enable its sales and marketing and after-sales customer service personnel to more closely interact with customers and develop stronger and deeper business relationships. The Group intends to conduct more site visits and create more frequent feedback and communication opportunities with customers. Through closer and more frequent communication, the Group hopes to better understand customer needs and design and provide solutions to meet those needs, and in turn, maintain our market position.

Continue to upgrade and enhance our operational capabilities

The Group believes continuous upgrade and enhancement of our operational capabilities as a platform of medical operation services is critical for us to improve customer experience and plan to focus on the following areas: (i) to enhance local service capabilities. The Group plans to strategically develop small-scale self-operated ICLs in select regions and areas in China near the Group's major customers or based on market needs to better provide timely services for customers; (ii) to digitalise diagnostic testing. The Group aims to digitalise its testing services and plans to develop technical and operating systems to support its operations; (iii) to pursue potential acquisition and investment opportunities. In order to further enhance its operational capabilities, the Group may consider to acquire or invest in companies that have synergistic businesses with it, such as upstream companies engaged in advanced diagnostic techniques, molecular biology, biotechnology and their clinical applications; and (iv) to upgrade the Group's headquarters. To meet the needs of its growing business, the Group plans to upgrade our headquarters in Guangzhou.

Through the measures mentioned above, the Group believes it can continue to increase its market share in the future. The Group also plans to deepen its penetration in the areas where the current market leader does not have sufficient presence, and gradually expand to other areas in China to capture a larger market share in the future.

Expand our portfolio of diagnostic capabilities

The Group plans to expand its portfolio of diagnostic capabilities, in particular, for tumours, genetic diseases, infectious diseases and pharmacogenetics. With respect to these areas, the Group plans to continue to enhance its diagnostic testing technologies, upgrade its equipment and recruit more personnel as appropriate to support our expansion. As the Group expands its diagnostic capabilities, we plan to market its services to more non-medical institution customers, such as corporations and government agencies, enhancing its ability to provide omni-scenario medical operation services for customers. Through the continued expansion of its capabilities, the Group also endeavours to work with hospitals to provide precision medicine solutions to patients.

The Group believes that precision medicine will be a growing trend in the healthcare industry as more and more patients seek customised medical solutions. Diagnostic testing is crucial to enhance precision medicine as accurate diagnostic testing will enable physicians to understand the characteristics of the patients to customise their treatment plan. Leveraging its experience and market leadership in diagnostic testing, the Group intends to be a first mover in capturing this industry opportunity.

Continue to attract and train our talent pool

The Group plans to continue to attract and train up talented and experienced personnel to support its expanding business. In particular, the Group plans to focus on technical and medical personnel, as well as management personnel, whom the Group believes are the key backbone of its business. The Group intends to create an employee promotion and advancement system with a grade structure and corresponding compensation scheme. The Group also may put in place incentive schemes to motivate and align the interests of its employees in the future. The Group will also implement training programs for different departments to enhance their professional and technical knowledge. The Group also plans to invest more in Yunkang Medical and Health Management College program to attract and cultivate more talents.

FINANCIAL REVIEW

Overview

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

Revenue

Revenue of the Group amounted to RMB1,378.7 million for Reporting Period, representing an increase of 81.9% compared to RMB758.0 million for the six months ended June 30, 2021. Such increase was primarily attributable to the rapid growth of the Group's diagnostic testing services during the Reporting Period which was driven by the promotion of health care policy in mainland China and our professional medical diagnostic capabilities, outstanding capabilities of standardization and innovative business models.

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

	For six months ended June 30,		Change
	2022	2021	
	<i>RMB'000</i>	<i>RMB'000</i>	
	(Unaudited)	(Unaudited)	
Diagnostic outsourcing services	680,362	483,209	40.8%
Diagnostic testing services for medical institution alliances	650,700	244,449	166.2%
Diagnostic testing services for non-medical institutions	47,594	30,372	56.7%
	1,378,656	758,030	81.9%

Diagnostic Outsourcing Services

Revenue generated from diagnostic outsourcing services increased by 40.8% from RMB483.2 million for the six months ended June 30, 2021 to RMB680.4 million for the six months ended June 30, 2022, primarily due to the performance of key products of the Group maintained robust growth during the Reporting Period; in particular, business in key disease areas such as tumor, infectious diseases and blood diseases were on high-quality development trajectory, driving further growth in revenue from the diagnostic outsourcing services.

Diagnostic Testing Services for Medical Institution Alliances

Revenue generated from diagnostic testing services for medical institution alliances increased by 166.2% from RMB244.4 million for the six months ended June 30, 2021 to RMB650.7 million for the six months ended June 30, 2022. The increase was primarily due to (i) the increased number of on-site diagnostic centers from 275 as of December 31, 2021 to 350 as of June 30, 2022; and (ii) the further improved services capability and expanded service scope of the on-site diagnostic centers after the preliminary construction and operation, resulting in a rapid growth of the average revenue of the unit on-site diagnostic centers. As of June 30, 2022, the semi-annual average revenue of the on-site diagnostic centers was RMB1.9 million (a full-year average revenue of RMB2.2 million in 2021). As a crucial business of the Group, diagnostic testing services for medical institution alliances are constituting an increasing proportion of the Group's total revenue which increased from 32.2% for the six months ended June 30, 2021 to 47.2% for the six months ended June 30, 2022.

Diagnostic Testing Services for Non-Medical Institutions

Diagnostic testing services for non-medical institutions are mainly provided through our outpatient clinics, serving individual customers who are general public and employees of our non-medical institution customers. During the Reporting Period, revenue generated from diagnostic testing services for non-medical institutions increased by 56.7% from RMB30.4 million for the six months ended June 30, 2021 to RMB47.6 million for the six months ended June 30, 2022, primarily due to the significant increase in demand for COVID-19 tests by individual customers and non-medical institution customers under the ongoing impact of COVID-19 epidemic.

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 increased by 95.6% from RMB372.0 million for the six months ended June 30, 2021 to RMB727.6 million for the six months ended June 30, 2022, which are line with the increase in revenue.

Gross Profit and Gross Profit Margin

As of result of the aforementioned factors, the Group's gross profit increased by 68.6% from RMB386.1 million for the six months ended June 30, 2021 to RMB651.1 million for the six months ended June 30, 2022. The Group's overall gross profit margin slightly decreased from 50.9% for the six months ended June 30, 2021 to 47.2% for the six months ended June 30, 2022, primarily due to the decrease of average unit price of COVID-19 tests during the Reporting Period under the continuing impact of COVID-19 and relevant government pricing policies.

Other Income and Gains, Net

Other income and gains, net increase by 101.3% to RMB4.9 million for six months ended June 30, 2022, as compared to RMB2.4 million for six months ended June 30, 2021. The increase was primarily attributable to government grants and subsidies received or to be received.

The government grants include those grants from the local government in recognition of the entitlement of high and new technology enterprises, and the medical institutions' contribution to local economy's development. There are no unfulfilled conditions or other contingencies attached to these grants.

Selling Expenses

The Group's selling expenses increased by 81.1% from RMB121.0 million for the six months ended June 30, 2021 to RMB219.1 million for the six months ended June 30, 2022, primarily due to the increase of the Group's revenue during the Reporting Period. The proportion of selling expenses in the total revenue was relatively stable, which was 16.0% and 15.9% for the six months ended June 30, 2021 and the six months ended June 30, 2022, respectively.

Administrative Expenses

The Group's administrative expenses increased by 80.7% from RMB71.2 million for the six months ended June 30, 2021 to RMB128.6 million for the six months ended June 30, 2022, primarily due to expenses on the recruitment of talents to support the Group's expanding business and research and development ("R&D"), as well as the listing expenses incurred in connection with our preparation for the Company's global offering. The Group's administrative expenses for the six months ended June 30, 2021 accounted for 9.3% of the total revenue, while the ratio was 9.4% for the six months ended June 30, 2022, which remains stable.

The Group's R&D expenses increased by 62.2% from RMB15.6 million for six months ended June 30, 2021 to RMB25.4 million for six months ended June 30, 2022, mainly due to the increased investments in on-going and newly kick-off R&D projects.

Impairment Losses on Financial Assets

The Group's impairment losses on financial assets were mainly provisions for accounts receivable. For the six months ended June 30, 2022, the Group's impairment losses on financial assets were approximately RMB20.9 million, representing an increase of 110.4% year-on-year, mainly due to the increase in the Group's trade receivables with the growth of business scale.

Finance Costs

The Group's net finance costs decreased from RMB4.9 million for the six months ended June 30, 2021 to RMB3.8 million for the six months ended June 30, 2022, primarily due to the decrease in interest expense on interest-bearing borrowings.

Profit before Tax

As of result of the aforementioned factors, the Group recorded profit before tax of RMB283.5 million for the six months ended June 30, 2022, compared to RMB181.5 million for the six months ended June 30, 2021. This was mainly attributable to the significant increase in revenue generated from the Company's diagnostic testing services for medical institutional alliances, which had a positive impact on the profitability of the Company.

Income Tax Expense

The Group's income tax expenses increased from RMB33.5 million for the six months ended June 30, 2021 to RMB48.7 million for the six months ended June 30, 2022, primarily due to the increase in the Group's taxable income.

Property, Plant and Equipment

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

The Group's property, plant and equipment increased from RMB485.2 million as at June 30, 2021 to RMB641.9 million as at June 30, 2022, primarily due to the Group's investment in medical equipment and new leases entered into for setting up laboratories.

Financial Assets Measured at Fair Value

The Group's financial assets measured at fair value comprise financial assets designated at FVOCI and financial assets designated at FVTPL, all of which are level 3 instruments based on the fair value hierarchy.

We use valuation techniques to determine the fair value of our level 3 instruments. External valuation experts will be involved when necessary. During the six months ended June 30, 2022, the fair value changes on financial assets measured at FVOCI and FVTPL are considered as immaterial.

Inventories

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

The Group's inventories increased from RMB41.7 million as at December 31, 2021 to RMB74.2 million as at June 30, 2022, which is line with the Group's business growth.

Trade and other Receivables and Prepayments

The Group's trade and other receivables increased from RMB886.9 million as at December 31, 2021 to RMB1,565.6 million as at June 30, 2022, primarily due to increased orders of services received during the period. The Group's credit period with customers is generally within 180 days. Some of the Group's trade receivables age over 180 days as some of the Group's key customers are public hospitals and Chinese Center for Disease Control and Prevention (中國疾病預防控制中心), who generally have the settlement with which is usually time-consuming and involves prolonged internal administrative procedures.

Trade and other Payables

The Group's trade and other payables increased from RMB556.7 million as at December 31, 2021 to RMB855.2 million as at June 30, 2022, primarily due to procurement of equipment and reagent in connection to the increasing revenue and accrued expenses during daily operations.

Capital Management

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

Liquidity and Capital Resources

The Group's cash and cash equivalents increased from RMB800.7 million as at December 31, 2021 to RMB1,083.5 million as at June 30, 2022, primarily attributable to the cash and cash equivalents received in the global offering on May 18, 2022 (the "**Listing Date**").

Net Current Assets

The Group had net current assets increased from RMB872.4 million as at December 31, 2021 to RMB1,674.6 million as at June 30, 2022.

Key Financial Ratios

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

	For the six months ended	
	June 30,	
	2022	2021
Gross profit margin ⁽¹⁾	47.2%	50.9%
	As at	As at
	June 30,	December 31,
	2022	2021
Current ratio ⁽²⁾	2.41	2.00
Quick ratio ⁽³⁾	2.35	1.95
Debt to asset ratio ⁽⁴⁾	0.37	0.41

Notes:

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

Contingent Liabilities

As at June 30, 2022, the Group did not have any material contingent liabilities, guarantee or any litigation or claim of material importance, pending or threatened against any of its member.

Foreign Exchange Risk

The Group mainly operates in China. Except for bank deposits denominated in Hong Kong 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

The Group had borrowings, including interest-bearing borrowings, of RMB442.1 million as at June 30, 2022.

As at June 30, 2022, the gearing ratio of the Group (calculated as total interest-bearing borrowings and lease liabilities divided by total equity plus other financial liabilities as of the same date) decreased to 13.4%, compared to 15.2% as of December 31, 2021.

Charge on Asset

As at June 30, 2022, there was no charge on assets of the Group.

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

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

Events after the Reporting Period

No important events affecting the Group occurred since June 30, 2022 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 in 2022.

Employees and Remuneration

As at June 30, 2022, the Group had 2,476 employees (as at June 30, 2021: 1,574). The total remuneration cost incurred by the Group for the six months ended June 30, 2022 was RMB200.9 million (for the six months ended June 30, 2021: RMB113.2 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.

OTHER INFORMATION

Compliance with the Corporate Governance Code in the Appendix 14 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 was listed on the Main Board of the Stock Exchange on the Listing Date. The Company has adopted the principles and code provisions of the Corporate Governance Code as the basis of the Company's corporate governance practices.

From the Listing Date and up to the date of this announcement, the Company has complied with all applicable code provisions set out in the Corporate Governance Code except for the deviations 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 10 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 from the Listing Date and up to the date of this announcement. 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 from the Listing Date and up to the date of this announcement.

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

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any subsidiaries or Consolidated Affiliate Entities of the Group purchased, redeemed or sold any of the listed securities of the Company or any of its subsidiaries from the Listing Date to June 30, 2022.

Change of Address of Hong Kong Branch Share Registrar and Transfer Office

With effect from August 15, 2022, the Hong Kong Branch Share Registrar and Transfer Office of the Company, Tricor Investor Services Limited (the “**Branch Share Registrar**”), will change its address from Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong to

**17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong**

All telephone and facsimile numbers of the Branch Share Registrar will remain unchanged.

Interim Dividend

On August 11, 2022, the Board declared an interim dividend for the six months ended June 30, 2022 of HK\$0.088 per Share (June 30, 2021: nil), which will be paid before September 30, 2022 to the shareholders whose names appear on the register of members of the Company on August 25, 2022.

Closure of Register of Members

The register of members of the Company will be closed on Thursday, August 25, 2022 during which no transfer of shares will be registered. In order to qualify for the interim dividend, all completed transfer documents should be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (with effective from August 15, 2022, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong) not later than 4:30 p.m. on Wednesday, August 24, 2022.

Audit Committee

The Audit Committee consists of one non-executive Director and two independent non-executive Directors, namely Dr. Guo Yunzhao, Mr. Yu Shiyong and Mr. Xie Shaohua (Chairman).

The Audit Committee has reviewed the unaudited consolidated interim financial information for the six months ended June 30, 2022 of the Group. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control measures with senior management members. The Audit Committee does not have any disagreement with the accounting treatment adopted by the Company.

Publication of Interim Results Announcement and Interim Report

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

The interim report for the six months ended June 30, 2022 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the websites of the Stock Exchange and the Company in due course.

APPRECIATION

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

By Order of the Board
Yunkang Group Limited
Zhang Yong
Chairman

Guangzhou, the PRC, August 11, 2022

As at the date of this announcement, the Board comprises Mr. Zhang Yong as Chairman and Executive Director; Ms. Huang Luo, Dr. Guo Yunzhao, and Dr. Wang Ruihua, as Non-executive Directors; and Mr. Yu Shiyong, Mr. Yang Hongwei, and Mr. Xie Shaohua, as Independent Non-executive Directors.