



Mega Genomics Limited
美因基因有限公司 *

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 6667

2023

ANNUAL REPORT

* For identification purpose only

Contents

Definitions	2
Corporate Information	6
Five-Year Financial Summary	8
Chairperson's Report	9
Business Review and Outlook	10
Management Discussion and Analysis	19
Directors and Senior Management	30
Corporate Governance Report	38
Environmental, Social and Governance Report	57
Directors' Report	88
Independent Auditor's Report	124
Consolidated Statement of Profit or Loss and Other Comprehensive Income	128
Consolidated Statement of Financial Position	129
Consolidated Statement of Changes in Equity	131
Consolidated Statement of Cash Flows	132
Notes to Financial Statements	134

Definitions

“Annual General Meeting” or “AGM”	the annual general meeting held by the Company on 28 June 2024 (Friday)
“Articles of Association” or “Articles”	the articles of association of the Company (as amended from time to time)
“Audit Committee”	the audit committee of the Board
“Auditor”	Ernst & Young, the auditor of the Company
“Beijing Mega Lab”	Beijing Mega Medical Test Laboratory Co., Ltd. (北京美因醫學檢驗實驗室有限公司) (formerly known as Beijing Mega Inspection Institution Co., Ltd. (北京美因醫學檢驗所有限公司)), a limited liability company incorporated in the PRC on 22 February 2016, a wholly-owned subsidiary of Mega Genomics Beijing
“Board”	the board of Directors
“CG Code”	the Corporate Governance Code set out in Appendix C1 to the Listing Rules
“China,” “mainland China,” “PRC” or “State”	People’s Republic of China, except where the context requires otherwise and solely for the purposes of this report, references to “China” and the “PRC” do not apply to Hong Kong, Macau Special Administrative Region and Taiwan
“Companies Act”	the Companies Act (as revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Company” or “Mega Genomics”	Mega Genomics Limited (美因基因有限公司*), an exempted company with limited liability incorporated in the Cayman Islands on 22 April 2021. Its shares are listed on the Main Board (Stock Code: 6667)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“connected transaction(s)”	has the meaning ascribed thereto under the Listing Rules

* For identification purpose only

“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Dr. Yu Rong, Ms. Guo Meiling, Meinian OneHealth, YURONG TECHNOLOGY LIMITED, Tianjin Hongzhi Kangjian Management Consulting Partnership (LP), Infinite Galaxy Health Limited and Mei Nian Investment Limited, and a Controlling Shareholder shall mean each or anyone of them. See the section headed “Relationship with Our Controlling Shareholders” in the Prospectus dated 10 June 2022
“COVID-19”	coronavirus disease 2019, a disease caused by a novel virus designated as severe acute respiratory syndrome coronavirus
“Director(s)”	the directors of the Company
“Global Offering”	the global offering of the Shares in connection with the Listing
“Group”, “our Group”, “our”, “we” or “us”	the Company and its subsidiaries
“HK\$” or “Hong Kong Dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	person(s) or company(ies) who/which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, is/are not our connected persons or their contacts and their respective ultimate beneficial owners as defined by the Listing Rules
“Latest Practicable Date”	23 April 2024, being the latest practicable date before the printing and publication of this annual report
“Listing”	the listing of our Shares on the Main Board on the Listing Date
“Listing Date”	22 June 2022, on which dealings in our Shares first commenced on the Main Board
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Definitions

“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
“Mega Genomics Beijing”	Mega Genomics (Beijing) Co., Ltd. (美因健康科技(北京)有限公司), a limited liability company incorporated in the PRC on 5 January 2016 and one of our PRC Consolidated Entities
“Mega Genomics HK”	Mega Genomics Health HongKong Limited, a limited liability company incorporated in Hong Kong on 30 April 2021, and a wholly-owned subsidiary of the Company
“Mega Genomics WFOE”	Mega (Tianjin) Investment Co., Ltd. (美因(天津)投资有限公司), a limited liability company incorporated in the PRC on 24 May 2021, and a wholly-owned subsidiary of the Company
“Meinian OneHealth”	Meinian OneHealth Healthcare Holdings Co., Ltd. (美年大健康产业控股股份有限公司), a limited liability company incorporated in the PRC on 22 January 1991, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 002044), one of the Controlling Shareholders of the Company
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules
“Nomination Committee”	the nomination committee of the Board
“Prospectus”	the prospectus of the Company dated 10 June 2022
“Remuneration Committee”	the remuneration committee of the Board
“Renminbi” or “RMB”	the lawful currency of the PRC
“Reorganization”	the reorganization arrangements undergone by our Group in preparation for the Listing as described in the section headed “History, Reorganization and Group Structure” in the Prospectus
“Reporting Period”, “the year 2023” or “the current year”	the year ended 31 December 2023

“RSU Nominee”	Mega Marvelous Limited, a company incorporated in the BVI on 7 December 2021, a wholly-owned subsidiary of KASTLE LIMITED, an independent trustee appointed under the terms of the RSU Scheme which will hold the Shares underlying the RSUs for the benefit of eligible participants pursuant to the RSU Scheme
“RSU Scheme”	the restricted share unit scheme approved and adopted by our Board on 19 November 2021, the principal terms of which are set out in the section headed “Statutory and General Information – D. RSU Scheme” in Appendix IV to the Prospectus
“RSU(s)”	restricted share unit(s) awarded to a participant under the RSU Scheme
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary shares in the share capital of the Company with a par value of US\$0.0001 each
“Shareholder(s)”	holder(s) of our Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“NMPA”	National Medical Products Administration
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$” or “USD”	United States dollars, the lawful currency of the United States
“%”	per cent

In this report, the terms “associate,” “close associate,” “connected person,” “connected transaction,” “continuing connected transaction,” “controlling shareholder,” “core connected person,” “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

Certain amounts and percentage figures included in this report have been subject to rounding adjustments. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Dr. Yu Rong
Ms. Lin Lin (*Chairperson*)
Ms. Jiang Jing
Mr. Huang Yufeng (*Chief Executive Officer*)^(Note 1)

Non-executive Director

Ms. Guo Meiling

Independent Non-executive Directors

Dr. Zhang Ying
Mr. Jia Qingfeng
Dr. Xie Dan

AUDIT COMMITTEE

Mr. Jia Qingfeng (*Chairperson*)
Ms. Guo Meiling
Dr. Zhang Ying

REMUNERATION COMMITTEE

Dr. Zhang Ying (*Chairperson*)
Ms. Guo Meiling
Mr. Jia Qingfeng

NOMINATION COMMITTEE

Ms. Lin Lin (*Chairperson*)
Dr. Zhang Ying
Mr. Jia Qingfeng

COMPANY SECRETARIES

Ms. Ng Wai Kam
Ms. Li Yan ^(Note 2)

AUTHORIZED REPRESENTATIVES

Ms. Lin Lin
Ms. Ng Wai Kam

HONG KONG LEGAL ADVISORS

DeHeng Law Offices (Hong Kong) LLP
28/F, Henley Building,
5 Queen's Road Central,
Hong Kong

AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
27/F, One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

COMPLIANCE ADVISOR

China Securities (International) Corporate
Finance Company Limited
18/F, Two Exchange Square
8 Connaught Place
Central, Hong Kong

REGISTERED OFFICE

Third Floor, Century Yard
Cricket Square, P.O. Box 902
Grand Cayman, KY1-1103
Cayman Islands

Notes:

(1) Ceased to act as a Director and the Chief Executive Officer with effect from 17 January 2024

(2) Resigned on 21 July 2023

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

401 Health Work
North Garden Road
Haidian District
Beijing
PRC

PRINCIPAL BANK

Standard Chartered Bank (HK) Limited
Bank of Communications Co., Ltd., Beijing Branch

STOCK CODE

6667

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F
Manulife Place
348 Kwun Tong Road
Kowloon, Hong Kong

COMPANY'S WEBSITE

www.megagenomics.cn

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Global Services (Cayman) Limited
71 Fort Street
PO Box 500
George Town
Grand Cayman KY1-1106
Cayman Islands

HONG KONG SHARE REGISTRAR

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

Five-Year Financial Summary

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the year ended 31 December				
	2023	2022	2021	2020	2019
			RMB'000		
Revenue	151,300	145,727	237,185	203,220	123,700
Gross Profit	88,296	81,723	166,676	146,241	78,476
Gross Profit Margin	58.4%	56.1%	70.3%	72.0%	63.4%
Profit/(loss) before tax	36,179	(21,418)	95,882	94,903	38,292
Profit/(loss) for the year	30,038	(17,618)	79,015	79,097	29,691

Condensed Consolidated Statement of Financial Position

	As of 31 December				
	2023	2022	2021	2020	2019
			RMB'000		
Assets					
Non-current Assets	128,764	86,619	86,821	95,465	79,365
Current Assets	667,778	619,080	685,362	358,108	184,380
Total Assets	796,542	705,699	772,183	453,573	263,745
Liabilities					
Non-current Liabilities	37,384	6,456	7,896	14,813	213,378
Current Liabilities	114,331	81,246	69,791	262,365	53,069
Total Liabilities	151,715	87,702	77,687	277,178	266,447
Total Equity	644,827	617,997	694,496	176,395	(2,702)

Chairperson's Report

Dear Shareholders,

I, on behalf of the Board, would like to present the annual report of the Group for the year ended 31 December 2023.

In 2023, along with the great success of pandemic prevention and control across China, the economy and society gradually returned to normal. The Group actively monitored market changes, strived for progress while maintaining stability, and precisely seized development opportunities.

During the year, our employees and management team put in immense work to further expand our customer base and build solid cooperative relationships with various medical institutions or institutional customers. Despite the fact that the aftermath of the pandemic still had a certain impact on our business, the Group implemented a more aggressive marketing strategy, accelerated the expansion of sales channels and continued to optimize the product structure of genetic testing services.

During the Reporting Period, our revenue amounted to RMB151.3 million, representing an increase of 16.8% as compared to 2022 if excluding the impact of COVID-19 testing services; our net profit amounted to RMB30.0 million, representing an increase of RMB47.6 million as compared to the net loss in 2022, demonstrating a substantial growth trend; and our cash flow position significantly improved, with our net operating cash inflow reaching RMB163.7 million. Net operating cash outflow in 2022 was RMB6.9 million. Moreover, we strived to promote our R&D projects by increasing our R&D investment and enhancing our R&D strength, so as to continuously expedite the conversion of R&D results.

We firmly believe that, along with the continuous recovery of China's economy, the gradual increase in industry demand, the full resumption of our institutional customers' business and people's increasing attention to health, it will bring new development opportunities to our business.

I hereby would like to extend my gratitude to all Shareholders, customers, partners and employees for your support for and trust in the Company. In the future, we will continue to uphold our innovative concepts, continuously expand our markets, promote our R&D and enhance our brand influence; strengthen our cooperation with all sectors to jointly explore new business models and development opportunities; actively respond to social needs and contribute more to people's health and well-being. Let's join hands to move forward and create a bright future!

Lin Lin

Chairperson and Executive Director

Hong Kong

26 March 2024

Business Review and Outlook

Business Review

Overview

As a leading genetic testing platform company in China, we focus on consumer genetic testing and cancer screening services. As of 31 December 2023, we had performed a total of over 19 million genetic tests since our establishment in 2016.

According to Frost & Sullivan, we were the largest consumer genetic testing platform in China in terms of the cumulative number of tests administered as of 31 December 2021, and we were the largest genetic testing platform for cancer screening in China as measured by the number of tests administered in 2020. Unless the context otherwise requires, capitalized terms used herein shall have the same meanings as those defined in the prospectus of the Company dated 10 June 2022.

Our Products

Our products are either independently developed by our in-house research and development team or jointly developed via cooperation with our third-party partners.

As of 31 December 2023, we had 97 multi-dimensional commercialized testing solutions for consumer genetic testing and cancer screening that cover a wide range of prices, 86 of which were comprised of our self-developed services. Our current selective testing services that are more well-received by the market include:

GENERAL testing services

- Brain Health Assessment Package – a service that assesses the risk of developing various related diseases, including Alzheimer’s disease.
- Alimentation Capability Assessment Package – a service that assesses the risk of developing hyperhomocysteinemia.
- Parkinson’s Disease Risk Assessment – a service that assesses the risk of developing Parkinson’s disease.
- Full-scale Cancer Risk Assessment Package – a service that assesses the risk of developing cancer of various types.
- Cardiovascular and Cerebrovascular Disease Risk Assessment Package – a service that assesses the risk of developing seven common cardiovascular and cerebrovascular diseases.

ADVANCED testing services

- Hereditary Breast Cancer/Ovarian Cancer Genetic Testing – a service that assesses the risk of developing breast cancer and ovarian cancer.
- Septin9 Colorectal Cancer Screening Test – a service that provides preliminary assessment of whether a person has potentially developed colorectal cancer.
- RNF180/Septin9 Gastric Cancer Screening Test – a service that provides preliminary assessment of whether a person has potentially developed gastric cancer.
- Telomere Length Genetic Testing – a service that provides preliminary assessment of cell age and aging rate of a person.

EXECUTIVE testing services

- Personal Whole Genome Test Plus – a service that assesses the risk of developing multiple types of diseases and provides interpretation for various individual traits and medication advice for certain common diseases.
- Whole Exome Sequencing Package for Adult – a service that assesses (i) the risk of developing multiple high-risk diseases, hereditary cancers, recessive genetic diseases and types of complex diseases; and (ii) multiple drugs, dietary nutrition items, and exercise and fitness items.

In addition to our existing service portfolio, we have been developing eight in vitro diagnostics (“**IVD**”) pipeline products.

Among which, three kits are consumer genetic testing products in our pipeline, including (i) folate metabolic capacity assessment testing kits, which can be used to assess the risk of developing multiple cardiovascular and cerebrovascular diseases; (ii) ApoE gene testing kits, which can be used to assess the risk of developing Alzheimer’s disease; and (iii) BRCA1/BRCA2 gene mutation testing kits, which can be used to assess the risk of developing hereditary breast cancer.

The other five kits are disease screening products in our pipeline, including (i) Alzheimer’s disease screening kits; (ii) colorectal cancer screening kits; (iii) gastric cancer screening kits; (iv) lung nodule auxiliary diagnostic kits; and (v) cervical cancer screening kits. Our disease screening pipeline covers major diseases with high prevalence that currently lack effective screening methods.

ApoE gene testing kits

Our self-developed ApoE testing kits use extraction-free blood nucleic acid technology and quantitative polymerase chain reaction (“**qPCR**”) platform to detect ApoE gene mutations and assess the risk of Alzheimer’s disease. We expect this product to generate synergistic effects with our Alzheimer’s disease screening products. The ApoE gene testing kits screen ApoE $\epsilon 4$ carriers, which is the target population that we recommend for periodic testing for Alzheimer’s disease.

Our self-developed extraction-free blood nucleic acid technology can effectively save testing costs (eliminating nucleic acid extraction reagents and equipment) and time costs (eliminating the one-hour nucleic acid extraction process). The product has obtained the registration inspection report in May 2022 and is currently in a multi-center clinical trial of approximately 1,200 cases with three hospitals in different regions of China (Tiantan Hospital, etc.). It is expected to obtain the registration certificate in the second half of 2024.

Folate metabolic capacity assessment testing kits

Our self-developed folate metabolic capacity assessment testing kits use extraction-free blood nucleic acid technology and qPCR platform to detect the MTHFR gene and assess the metabolic capacity of folate in order to guide pregnant women to supplement folate and prevent neonatal defects, including neural tube defects. It can also assess the risk of hyperhomocysteinemia, stroke and other cardiovascular and cerebrovascular diseases.

Our self-developed extraction-free blood nucleic acid technology can effectively save testing costs (eliminating nucleic acid extraction reagents and equipment) and time costs (eliminating the one-hour nucleic acid extraction process). The product has obtained the registration inspection report in May 2022. Currently, it has completed clinical trial and has been submitted to the NMPA for registration acceptance. It is expected to obtain the registration certificate in the second half of 2024.

Business Review and Outlook

Alzheimer's disease screening kits

Our Alzheimer's disease screening kits are plasma-based miRNA markers testing. The global genetic testing market does not have any commercialized genetic testing kit registered for screening Alzheimer's disease, according to Frost & Sullivan. We are developing this product in collaboration with Tiantan Hospital and conducting multi-center clinical validation with multiple hospitals in different regions of China. We are using no less than 1,500 samples and machine learning algorithms to determine the suitability of the selected biomarkers.

We expect to develop two types of testing kits using the multiplex RT-qPCR and NGS technologies. The NGS kits are expected to include dozens to hundreds of biomarkers and provided as Laboratory Developed Tests ("LDTs").

The RT-qPCR kits are expected to include two to three biomarkers, and we expect to obtain the registration certificate by 2025.

Colorectal cancer screening kits

Our product candidates for colorectal cancer screening are plasma-based DNA methylation markers testing.

We are developing this product in collaboration with the 7th Medical Center of Chinese PLA General Hospital. As of 31 December 2023, we have preliminarily finished biomarker candidate selection, and we are conducting multi-center clinical validation with three hospitals in different regions of China and using no less than 1,500 samples to determine the suitability of the selected biomarkers. We have tested thousands of samples, and with the biometric analysis and machine learning algorithm, we have screened markers with favorable sensitivity and specificity.

We expect to develop two types of testing kits using the qPCR and NGS technologies.

The NGS kits include more than one hundred biomarkers, and are provided as LDTs with both sensitivity and specificity higher than 90%.

The qPCR kits include three biomarkers, and we expect to obtain the registration certificate by 2025.

Gastric cancer screening kits

Our product candidates for gastric cancer screening are plasma-based DNA methylation markers testing.

We are developing this product in collaboration with the 7th Medical Center of Chinese PLA General Hospital. As of 31 December 2023, we have preliminarily finished biomarker candidate selection, and we are conducting multi-center clinical validation with three hospitals in different regions of China and using no less than 1,500 samples to determine the suitability of the selected biomarkers. We have tested thousands of samples, and with the biometric analysis and machine learning algorithm, we have screened markers with favorable sensitivity and specificity.

We expect to develop two types of testing kits using each of qPCR and NGS technologies.

The NGS kits include more than one hundred biomarkers and are provided as LDTs with both sensitivity and specificity higher than 90%.

The qPCR kits include three biomarkers, and we expect to obtain the registration certificate by 2025.

BRCA1/BRCA2 gene mutation testing kits

We have completed the reagent formulation for our self-developed BRCA1/BRCA2 gene mutation testing kits. With the multiplex PCR library preparation sequencing technology, we have achieved a lower cost and initially established a database containing tens of thousands of mutation loci.

Our lung nodule (benign or malignant) auxiliary diagnostic kits and cervical cancer screening kits are at the early development stage.

In addition, we developed colloidal gold-based fecal occult blood testing kits and transferrin testing kits to detect gastrointestinal bleeding for the auxiliary diagnosis of colorectal and gastric cancers. As of 31 December 2023, we have obtained the product registration certificates for our fecal occult blood testing kits and transferrin testing kits approved by the Shanghai Medical Products Administration and have achieved mass production.

We have also developed cfDNA extraction and sulfide kits and oral swab samples, for which, we have obtained the filing certificates and achieved mass production as of 31 December 2023.

Research and Development (“R&D”)

Our strong R&D capabilities is vital to our business.

Since our founding in 2016, our R&D has been a major force in the expansion of our testing technology platforms and testing services offerings. We use a market-oriented approach to our R&D strategy. Our R&D team contributes to the development of our growth strategy by tracking industry developments, market demand and competition, and by identifying services and products with significant market potential for commercialization. For the year ended 31 December 2023, our R&D expenses increased by over 15% as compared to the same period in 2022.

Intellectual property and qualification

As of 31 December 2023, three invention patents, one utility model patent and two design patents had been granted to us. In addition, we registered 50 software copyrights and 58 trademarks. We have also been recognized for our innovation, including recognition as a National High-tech Enterprise, Zhongguancun High-tech Enterprise, Beijing “Specialization, Expertise, Distinction, Innovation” small and medium-sized enterprise, and Beijing Natural Science Foundation Trust Unit.

In-house R&D team

We have a strong in-house R&D team, which has extensive experience in the genetic testing industry. Approximately 65% of our R&D team members possess a master degree or above in relevant fields from institutions such as the Chinese Academy of Sciences, China Agricultural University and New York University.

Collaboration with third parties

In addition to our in-house R&D team, we also conduct R&D through collaboration with top physicians and medical experts in China.

Business Review and Outlook

Under our collaboration agreements, medical experts work with us during the R&D stage and help with the implementation of clinical trials through recruitment of participating hospitals and trial sample collection. Such collaboration is expected to expedite the process of multi-center clinical trials with large samples and increase the reliability of our products.

Such medical experts would also provide necessary expert opinions during the registration process.

In addition, we expect the authority and reputation of these medical experts to help with the registration and promotion of our products. We have the technical know-how for the co-developed products and have joint ownership over relevant intellectual property rights. We are entitled to submit IVD registration applications for these products and we will be the sole registrant of the IVD registration certificates once approved.

We have also established R&D collaborations with industry-leading service providers, mainly CROs, at different phases of our IVD product registration to ensure our quality management system, manufacturing and clinical trials of IVD product candidates are in line with the National Medical Products Administration of China's regulatory requirements for product registration. Our collaboration with these companies does not grant them any interest in our intellectual property rights. We do not rely on any particular service provider.

As of 31 December 2023, we have established cooperative relationships with the following companies:

Huaguang Innovation (Beijing) Technology Service Co., Ltd. ("Huaguang")

It is a top-level third-party certification company for the medical device quality management system with experience in product certification and quality management system certification.

Through collaboration with Huaguang, we have established a quality management system that satisfies IVD registration standards and received guidance in the product registration process to ensure full compliance with applicable regulations and quality management system assessment.

Guangzhou Osmunda Medical Device Technology, Inc. ("Osmunda")

It is a leading CDMO service provider in China with four domestic CDMO bases, and has production lines for active devices, passive devices, and IVD reagents. It also has independent inspection and testing centers, physics laboratories, chemical laboratories, PCR laboratories, microbiological inspection clean areas and preparation rooms. We collaborate with Osmunda for contract-commissioned production that complies with relevant regulations.

Beijing Tigermed-Jyton Medical Tech. Co. Ltd. 泰格捷通(北京)醫藥科技有限公司 ("Tigermed-Jyton")

It is a top clinical trial CRO company in China. Our collaboration with Tigermed-Jyton is designed to ensure clinical trial compliance.

Testing Technology Platforms

Our testing technology platforms and technologies include endpoint fluorescent PCR platform, qPCR platform, NGS platform (multiplex PCR library preparation sequencing, whole exome sequencing and whole genome sequencing technologies), whole genome microarray platform and blood nucleic acid extraction-free technology. We possess the full range of genetic and molecular diagnostics technologies that support our commercialized testing and R&D applications.

Our R&D team has innovated constantly and developed a number of new risk assessment genetic tests covering various specialty areas, including alimentation, brain health, Parkinson's disease, ankylosing spondylitis, comprehensive assessment of immunity, cancer risk assessment, cardiovascular and cerebrovascular diseases, digestive system diseases, telomere and pharmacogenetic testing.

Our R&D efforts focus on the registration of IVD test kits. At present, our fecal occult blood testing kits and transferrin testing kits have obtained the NMPA registration certificates and achieved mass production, and our oral swab samples and cfDNA extraction and sulfide kits have obtained the NMPA filing certificates and achieved mass production. Our ApoE gene testing kits and folate metabolic capacity assessment testing kits are in the IVD registration and filing stage. The products under development include Alzheimer's screening kits, colorectal cancer screening kits, gastric cancer screening kits and BRCA1/BRCA2 gene mutation testing kits. Two other products are at the early development stage, including benign and malignant lung nodule auxiliary diagnosis kits and cervical cancer screening kits.

Production Capacity

In order to carry out our broad-spectrum testing process and to satisfy our consumers' needs, we have developed an advanced and integrated system of technology platforms, including endpoint fluorescent PCR platform, qPCR platform, NGS platform (multiplex PCR library preparation sequencing and exome/whole genome sequencing technologies) and whole genome microarray platform. Our tests are conducted in our independent testing laboratory. Our high-throughput testing platform, with an average daily throughput of 50,000 samples, offers the advantages of high throughput and automation, and the ability to deliver multi-scenario genetic testing solutions with cost efficiencies.

Production Facility

We have one laboratory located in Beijing, China, with a gross floor area of approximately 880 sq.m. Our laboratory has obtained the External Quality Assessment Certificate for various testing services as well as the PRC Practice License of Medical Institution. Our laboratory has the required registrations and licenses to perform PCR amplification for clinical use and obtained the laboratory accreditation certificate from the China National Accreditation Service for Conformity Assessment in 2022.

Business Review and Outlook

Business

During the Reporting Period, the Company's operating revenue amounted to RMB151.3 million, representing a year-on-year increase of 3.8% or, if excluding the impact of COVID-19 testing services, 16.8%; and net profit amounted to RMB30.0 million as compared to loss of RMB17.6 million for the same period in 2022. In 2023, the Company turned loss into profit, with an increase in net profit of RMB47.6 million as compared to 2022, primarily due to the fact that the Company implemented a more aggressive marketing strategy, accelerated the expansion of sales channels, enriched its product matrix and continuously optimized the product structure of genetic testing services, while also strengthened its cost control and collection of receivables, resulting in a significant increase in net profit of the Company during the Reporting Period.

During the Reporting Period, we covered over 1,800 healthcare institutions in more than 340 cities in China, and health checkup centers accounted for approximately 54% of our total number of institutional customers. Our sales and marketing network allows us to deliver genetic testing services to a large portion of the Chinese population. In addition, we cooperate with various e-commerce and online healthcare platforms to expand and enhance our sales and marketing network.

Financial Highlights

	For the year ended 31 December		
	2023	2022	Year-on-year change
	RMB'000	RMB'000	
Revenue	151,300	145,727	3.8%
Consumer genetic testing services	108,381	80,557	34.5%
Cancer screening services	42,919	65,170	(34.1%)
Gross profit	88,296	81,723	8.0%
Gross profit margin	58.4%	56.1%	2.3 percentage points
Net profit/(loss)	30,038	(17,618)	N/A
Net profit/(loss) margin	19.9%	(12.1%)	N/A

Revenue

For the year ended 31 December 2023, our total revenue amounted to RMB151.3 million, representing an increase of RMB5.6 million, or 3.8% or, if excluding the impact of COVID-19 testing services, 16.8%, as compared to RMB145.7 million for the same period in 2022. The revenue generated from consumer genetic testing services and cancer screening services for the year ended 31 December 2023 amounted to RMB108.4 million and RMB42.9 million, respectively. The year-on-year increase in revenue was primarily attributable to the steady year-on-year revenue growth of the Company during the Reporting Period due to the fact that the Company implemented a more aggressive marketing strategy, accelerated the expansion of sales channels, enriched its product matrix and continuously optimized the product structure of genetic testing services.

Gross Profit and Gross Profit Margin

For the year ended 31 December 2023, our consolidated gross profit amounted to RMB88.3 million, representing a year-on-year increase of 8.0%, of which RMB57.3 million and RMB31.0 million of gross profit were attributable to consumer genetic testing services and cancer screening services, respectively. The 64.4% year-on-year increase in gross profit from consumer genetic testing services was driven by the optimization of our product and service portfolio and our ability to effectively control costs.

For the year ended 31 December 2023, our consolidated gross profit margin was 58.4%. For the year ended 31 December 2022, the gross profit margin for our cancer screening services was 72.1%, representing a year-on-year increase of 0.2 percentage point, primarily attributable to our ability to effectively control costs. The gross profit margin for our consumer genetic testing services was 52.9%, which increased by 9.6 percentage points year-on-year, driven by the optimization of our product and service portfolio and our ability to effectively control costs.

Net Profit and Net Profit Margin

For the year ended 31 December 2023, we recorded a net profit of RMB30.0 million and a net profit margin of 19.9%, as compared to a net loss of RMB17.6 million and a net loss margin of 12.1% for the same period in 2022. In 2023, the Company turned net loss into net profit, with an increase of RMB47.6 million, primarily due to the fact that the Company implemented a more aggressive marketing strategy, accelerated the expansion of sales channels, enriched its product matrix and continuously optimized its product structure, while also strengthened its cost control and collection of receivables, resulting in a significant increase in net profit of the Company during the Reporting Period.

Prospects and Outlook

Further exploiting the consumer genetic testing market in China

According to Frost & Sullivan, the penetration of the consumer genetic testing market in China is expected to grow from 0.8% to 11.6% from 2020 to 2030. During this process, more standards regarding the consumer genetic testing industry will be established and the prevention and treatment guidelines or expert consensus for common diseases will be formed gradually. We believe that it is critical to expedite the establishment of industry standards.

We will strengthen our partnerships with industry leaders to establish industry standards through cooperation with key opinion leaders. This includes organizing academic meetings, collaborating with experts in scientific research, and conducting retrospective data analysis, etc. We will also strengthen our efforts to accelerate the education of medical institutions and increase market penetration more quickly by popularizing industry standards.

Meanwhile, in order to continuously consolidate our leading position in the consumer genetic testing market, we constantly upgrade and launch new products to meet the huge domestic consumer genetic market demand.

Further exploiting the cancer screening test market in China

We plan to further increase the penetration of cancer screening. The current market is basically aware of cancer screening. In particular, in the field of digestive tract tumors, blood methylation screening for intestinal cancer has gradually and widely reached consumers and has achieved good response. We will further strengthen the automation level of production to reduce the production cost and accelerate the R&D and application of blood methylation products for digestive tract tumors to improve the sensitivity and specificity of screening. This is to make the blood methylation screening for intestinal cancer have better socio-economic value.

We will continue diversifying our cancer screening product lines, and have achieved mass production for our screening products of fecal occult blood. Lower-cost screening will expand the recipient base and increase awareness of intestinal cancer screening among our customers.

Business Review and Outlook

Expanding our R&D strength and enriching our product matrix

We will vigorously expand our R&D strength. In line with our R&D efforts, we plan to recruit more professionals to strengthen our internal R&D team and supplement our internal R&D strength by collaborating with renowned domestic and international academic and medical institutions.

In addition to our product pipeline, we plan to develop a wider range of screening products that are low-cost and suitable for in-home testing. We believe that diversifying our product portfolio will help us strengthen our industry leadership position, significantly enhance our operational efficiency and improve our profitability. In addition, our fecal occult blood intestinal cancer screening and transferrin screening products have been granted the Registration Certificate for Medical Device and have achieved mass production.

Making selective geographic expansion and acquisition opportunities

We plan to build a manufacturing laboratory to enhance geographic coverage, improve reporting cycles and reduce operating costs. We will optimize the production process, adopt a new production system for the new laboratory, and substantially shorten the product reporting time, to further improve customer experience.

We also plan to make prudent investments to complement our internal growth. We plan to acquire product candidates with significant market potential or technological frontiers when appropriate to complement our existing product portfolio and create synergies with our R&D, manufacturing and channel systems.

Management Discussion and Analysis

R&D Investment

We have a strong in-house R&D team, which has extensive experience in the genetic testing industry. Approximately 65% of our R&D team members possess a master degree or above in relevant fields from institutions such as the Chinese Academy of Sciences, China Agricultural University and New York University. During the Reporting Period, our R&D investment amounted to RMB22.4 million, representing a year-on-year increase of 15%. For the year ended 31 December 2023, we had 97 multi-dimensional commercialized testing solutions for consumer genetic testing and cancer screening, 86 of which were comprised of our self-developed services. Three invention patents, one utility model patent and two design patents had been granted to us. In addition, we registered 50 software copyrights and 58 trademarks. We have also been recognized for our innovation, including recognition as a National High-tech Enterprise, Zhongguancun High-tech Enterprise, Beijing “Specialization, Expertise, Distinction, Innovation” small and mid-size enterprise, and Beijing Natural Science Foundation Trust Unit.

Expanding Sales Network

We have established a sales team of over 100 members, and the Company’s sales network has covered over 1,800 medical institutions in more than 340 cities in China. As a leading company in consumer genetic testing and cancer screening in China, we have been recognized by top hospitals, physicians and key opinion leaders. During the Reporting Period, we have entered into new contracts with over 100 institutions. Meanwhile, we have also cooperated with top experts from Class III Grade A Hospitals to jointly provide consumers with online follow-up visits, interactive consultation, and regular monitoring.

Setting Foot in IVD Reagents Field

For the year ended 31 December 2023, our ApoE gene testing kits have obtained the registration inspection report and are in a multi-center clinical trial of approximately 1,200 cases with three hospitals in different regions of China with Tiantan Hospital being the group leader. It is expected to obtain the registration certificate in the second half of 2024.

Our folate metabolic capacity assessment testing kits have obtained the registration inspection report as well. Currently, it has completed clinical trial and has been submitted to the NMPA for registration acceptance. It is expected to obtain the registration certificate in the second half of 2024.

For our colorectal cancer screening kits and gastric cancer screening kits, we are conducting multi-center clinical validation with three hospitals in different regions of China and using no less than 1,500 samples to determine the suitability of the selected biomarkers. We have tested thousands of samples, and with the biometric analysis and machine learning algorithm, we have screened markers with favorable sensitivity and specificity.

We have completed the formulation for our BRCA1/BRCA2 gene mutation testing kits and initially established a database containing tens of thousands of mutation loci.

In addition, we developed colloidal gold-based fecal occult blood testing kits and transferrin testing kits to detect gastrointestinal bleeding for the auxiliary diagnosis of colorectal and gastric cancers. As of 31 December 2023, we have obtained the product registration certificates for our fecal occult blood testing kits and transferrin testing kits approved by the Shanghai Medical Products Administration and have achieved mass production.

Management Discussion and Analysis

We have also developed cfDNA extraction and sulfide kits and oral swab samples, for which, we have obtained the filing certificates and achieved mass production as of 31 December 2023.

Financial Review

The following table sets forth our consolidated statements of profit or loss for the periods indicated, together with the changes from the year ended 31 December 2022 to the same period in 2023, presented as a percentage:

	For the year ended 31 December		
	2023	2022	Year-on-year change
	RMB'000	RMB'000	
Revenue	151,300	145,727	3.8%
Cost of sales	(63,004)	(64,004)	(1.6%)
Gross profit	88,296	81,723	8.0%
Other income and gains	13,414	19,221	(30.2%)
Selling and distribution expenses	(30,706)	(34,863)	(11.9%)
Administrative expenses	(44,503)	(42,929)	3.7%
Reversal of impairment/(impairment) of financial assets, net	11,579	(25,852)	N/A
Other expenses	(779)	(2,483)	(68.6%)
Listing expenses	–	(15,516)	(100.0%)
Finance costs	(1,122)	(719)	56.1%
Profit/(loss) before tax	36,179	(21,418)	N/A
Income tax (expenses)/credit	(6,141)	3,800	N/A
Profit/(loss) for the year	30,038	(17,618)	N/A

Revenue

We organize our principal business into two segments, namely consumer genetic testing services and cancer screening services.

The table below sets forth our revenue by operating segment for the periods indicated (presented in figures and as a percentage of total revenue).

	For the year ended 31 December			
	2023		2022	
	RMB'000	%	RMB'000	%
Consumer genetic testing services	108,381	71.6%	80,557	55.3%
Cancer screening services	42,919	28.4%	65,170	44.7%
Total	151,300	100.0%	145,727	100.0%

The table below sets forth the average price and the number of tests we performed by the type of testing services for the periods indicated.

	For the year ended 31 December			
	2023		2022	
	Average price (RMB)	Testing volume (in thousand)	Average price (RMB)	Testing volume (in thousand)
Consumer genetic testing services				
General consumer genetic testing services	36.4	2,973	48.0	1,340
COVID-19 testing services	11.3	4	5.6	2,896
Cancer screening services	267.6	160	274.0	238
Total	48.2	3,137	32.6	4,474

- Consumer genetic testing services. For the year ended 31 December 2023, our revenue from consumer genetic testing services amounted to RMB108.4 million, representing a year-on-year increase of 34.5% or, if excluding the impact of COVID-19 testing services, 68.3%, which was attributable to the steady year-on-year revenue growth of the Company due to the fact that the Company implemented a more aggressive marketing strategy, accelerated the expansion of sales channels, enriched its product matrix and continuously optimized the product structure of genetic testing services.

Management Discussion and Analysis

- Cancer screening services. For the year ended 31 December 2023, our revenue from cancer screening services amounted to RMB42.9 million, representing a year-on-year decrease of 34.1%, which was attributable to the Company's adjustment of sales strategy, resulting in the decrease in our revenue from cancer screening services.

Cost of Sales

Our cost of sales consists primarily of raw material costs, testing service costs, staff costs, depreciation and amortization, and the cost of printing and delivering test reports. Others consist primarily of rent, clusters, property utilities, etc. The table below sets forth a breakdown of cost of sales by nature for the periods indicated (presented in figures and as a percentage of cost of sales).

	For the year ended 31 December			
	2023		2022	
	RMB'000	%	RMB'000	%
Raw materials	25,671	40.7%	32,616	51.0%
Testing services	9,421	15.0%	7,644	11.9%
Staff costs	11,169	17.7%	11,937	18.7%
Depreciation and amortization	11,077	17.6%	5,986	9.4%
Printing and delivery costs	2,664	4.2%	2,137	3.3%
Others	3,002	4.8%	3,684	5.7%
Total	<u>63,004</u>	<u>100.0%</u>	<u>64,004</u>	<u>100.0%</u>

Our cost of sales decreased by 1.6% from RMB64.0 million for the year ended 31 December 2022 to RMB63.0 million for the same period in 2023. The decrease was primarily attributable to our effective costs control and optimization of product structure.

Gross Profit and Gross Profit Margin

For the years ended 31 December 2022 and 2023, our gross profit amounted to RMB81.7 million and RMB88.3 million, respectively. For the same period, our gross profit margin was 56.1% and 58.4%, respectively. The table below sets forth a breakdown of gross profit and gross profit margin by operating segment for the periods indicated (presented in figures and as a percentage of total gross profit).

	For the year ended 31 December			
	2023		2022	
	Segmental gross profit RMB'000	%	Segmental gross profit RMB'000	%
Consumer genetic testing services	57,344	64.9%	34,875	42.7%
Cancer screening services	30,952	35.1%	46,848	57.3%
Total	88,296	100.0%	81,723	100.0%

	For the year ended 31 December	
	2023	2022
	Segmental gross profit margin	Segmental gross profit margin
Consumer genetic testing services	52.9%	43.3%
Cancer screening services	72.1%	71.9%
Total	58.4%	56.1%

Our gross profit from consumer genetic testing services increased from RMB34.9 million for the year ended 31 December 2022 to RMB57.3 million for the same period in 2023, and our gross profit margin from such services increased from 43.3% for the year ended 31 December 2022 to 52.9% for the same period in 2023. The increase was primarily attributable to the increase in revenue from consumer genetic testing services and the change in the Company's product structure.

Our gross profit from cancer screening services decreased from RMB46.8 million for the year ended 31 December 2022 to RMB31.0 million for the same period in 2023. The decrease was attributable to the decrease in revenue from cancer screening services as a result of the adjustment of sales strategy.

Other Income and Gains

Our other income and gains decreased from RMB19.2 million for the year ended 31 December 2022 to RMB13.4 million for the same period in 2023. The decrease was primarily attributable to the decrease in foreign exchange gains.

Management Discussion and Analysis

Selling and Distribution Expenses

Our selling and distribution expenses decreased from RMB34.9 million for the year ended 31 December 2022 to RMB30.7 million for the same period in 2023, primarily attributable to the fact that the Company continuously adjusted its sales strategy to adapt to its development needs, resulting in the reduction of labor costs after adjustments.

Administrative Expenses

Our administrative expenses increased from RMB42.9 million for the year ended 31 December 2022 to RMB44.5 million for the same period in 2023, primarily attributable to the increase in R&D expenses as a result of the increase in number of R&D personnel and the corresponding increase in R&D investments according to our R&D process.

Reversal of Impairment/(Impairment) of Financial Assets, Net

We had impairment losses on financial assets of RMB25.9 million for the year ended 31 December 2022, and reversal of impairment losses on financial assets of RMB11.6 million for the year ended 31 December 2023, primarily attributable to the Company's further increased efforts to collect accounts receivable, the good collection of receivables and the reversal of provision for trade receivables during the Reporting Period.

Other Expenses

Our other expenses decreased from RMB2.5 million for the year ended 31 December 2022 to RMB0.8 million for the same period in 2023. The decrease in other expenses was primarily attributable to the reduced equipment leasing business.

Finance Costs

Our finance costs increased from RMB0.7 million for the year ended 31 December 2022 to RMB1.1 million for the same period in 2023. The increase was primarily attributable to the re-recognition of right-of-use assets and lease liabilities recognized under the new lease standards upon maturity, the increase in unfulfilled lease liabilities and the increase in interest of bank borrowings.

Income Tax (Expenses)/Credit

During the Reporting Period, we recorded income tax expenses of RMB6.1 million. For the same period in 2022, as our operating results were at a loss, we recorded income tax credit of RMB3.8 million.

Profit/(Loss) for the Year

As a result of the above, we recorded a profit for the year of RMB30.0 million during the Reporting Period, and a loss for the year of RMB17.6 million for the same period in 2022.

Liquidity and Capital Resources

We have maintained a comprehensive treasury policy, detailing specific functions and internal control measures for capital use. These functions and measures include but are not limited to procedures of capital management and liquidity management.

We manage and maintain our liquidity through the use of internally generated cash flows from operations and proceeds from the Company's initial public offering on the Stock Exchange on 22 June 2022. We regularly review our major funding positions to ensure that we have adequate financial resources in meeting our financial obligations.

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Net cash generated from/(used in) operating activities	163,684	(6,911)
Net cash used in investing activities	(33,754)	(2,562)
Net cash (used in)/generated from financing activities	(12,911)	158,459
Net increase in cash and cash equivalents	117,019	148,986
Cash and cash equivalents at the beginning of the year	399,831	239,096
Effect of foreign exchange rate changes, net	1,439	11,749
Cash and cash equivalents at the end of the year	518,289	399,831

Cash and Cash Equivalents

During the Reporting Period, our net cash generated from operating activities was RMB163.7 million, primarily attributable to the Company's further increased efforts to collect accounts receivable, coupled with good accounts receivable collection.

During the Reporting Period, our net cash outflow used in investing activities was RMB33.8 million, primarily attributable to the acquisition of fixed assets by the Company.

During the Reporting Period, our net cash outflow used in financing activities was RMB12.9 million, primarily attributable to the payment of capital reduction by a subsidiary of the Company and the repurchase of shares.

As a result of the above, our cash and cash equivalents, which were mainly held in RMB, increased by 29.6% from RMB399.8 million as of 31 December 2022 to RMB518.3 million as of 31 December 2023.

Management Discussion and Analysis

Indebtedness

As of 31 December 2022 and 31 December 2023, we had outstanding aggregate unpaid contractual lease payments (present value of lease payments for the remainder of relevant lease terms) of RMB11.0 million and RMB25.9 million respectively in relation to the corresponding current and non-current lease liabilities.

As of 31 December 2023, the Company had outstanding bank loans of RMB22.6 million (2022: nil). Among which, RMB1.9 million will mature within one year and RMB20.7 million will mature after one year.

Save as disclosed in the paragraph headed “Pledge of Group Assets” below and note 23 to the consolidated financial statements, we did not have any other outstanding loans, capital issued or agreed to be issued, debt securities or debentures issued or to be issued and outstanding, mortgages, charges, bank overdrafts, liabilities under acceptances or acceptance credits, hire purchase commitments, other contingent liabilities or guarantees, borrowing requirements and committed borrowing facilities and capital and financial instruments used as of 31 December 2023.

Our Directors have also confirmed that, save for the above, as of 31 December 2023, there was no material change in the Company’s indebtedness since 31 December 2022.

Gearing Ratio

The gearing ratio (calculated by total liabilities divided by total assets) of the Group as at 31 December 2023 was 19.0%, representing an increase of 6.6 percentage points as compared to 12.4% as at 31 December 2022.

Foreign Exchange Risk

We have transactional currency exposures. Certain of our demand deposits, bank balances and proceeds are denominated in foreign currency which are exposed to foreign currency risk. We currently do not have a foreign currency hedging policy. However, our management monitors foreign exchange exposure and will consider appropriate hedging measures in the future should the need arise.

Key Financial Ratios

	For the year ended 31 December	
	2023	2022
Gross profit margin ⁽¹⁾	58.4%	56.1%
Net profit/(loss) margin ⁽²⁾	19.9%	(12.1%)
Current ratio ⁽³⁾	5.8	7.6

Notes:

- (1) Gross profit margin equals gross profit divided by revenue for the year.
- (2) Net profit/(loss) margin equals net profit/(loss) divided by revenue for the year.
- (3) Current ratio equals current assets divided by current liabilities as of the end of the year.

Capital Expenditures

Our principal capital expenditures relate primarily to the purchase of equipment and the establishment of an automatic laboratory. The table below sets forth our capital expenditures for the periods indicated.

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Purchases of property, plant and equipment	35,857	5,006
Purchases of other intangible assets	240	182
Total	36,097	5,188

Contingent Liabilities

As of 31 December 2023, we had no material contingent liabilities.

Significant Investments and Future Plans for Material Investments or Capital Assets

As of 31 December 2023, we did not hold any significant investment.

In addition, save for the expansion plans as disclosed in the two sections headed “Business” and “Future Plans and Use of Proceeds” in the Prospectus, we have no future plans for material investments or capital assets.

Material Acquisitions and Disposals

For the year ended 31 December 2023, we did not make any material acquisitions or disposals of subsidiaries, associates and joint ventures.

Pledge of Group Assets

As of 31 December 2023, we pledged certain property, plant and equipment in an amount of approximately RMB34.7 million (2022: nil) to secure bank loans of RMB23.6 million.

Final Dividend

The Board has resolved not to declare a final dividend for the year ended 31 December 2023 (2022: nil).

Management Discussion and Analysis

Employee

As of 31 December 2023, we had 229 employees, most of whom were based in Beijing. We conduct new staff training regularly to guide new employees and help them adapt to the new working environment. In addition, we provide online and in-person formal and comprehensive company-level and department-level training to our employees quarterly in addition to on-the-job training. We also encourage our employees to attend external seminars and workshops to enrich their technical knowledge and develop competencies and skills. We also provide training and development programs and external training sessions to our employees from time to time to improve their technical skills and ensure their awareness and compliance with our various policies and procedures.

The compensation of our employees is determined with reference to market conditions and the performance, qualifications and experience of individual employees. We offer competitive compensation packages, including salaries, discretionary bonuses and benefit plans, to retain employees based on the performance of us and individual employees.

RSU Scheme

The Company adopted the RSU Scheme on 19 November 2021. On 29 December 2022, the Company granted a total of 27,272,000 RSUs to certain eligible participants of the Company under the RSU Scheme, the principal terms of which are set out in the section headed “Appendix IV – Statutory and General Information – D. Restricted Share Unit Scheme” of the Prospectus and the announcement of the Company dated 29 December 2022. For details, please see the section headed “Directors’ Report – RSU Scheme”.

Material Events After the Reporting Period

As at the date of this report, there were no material events after 31 December 2023 that might have a material impact on our operations and financial results.

Company Information

The Company was incorporated in the Cayman Islands on 22 April 2021 as an exempted company with limited liability, and its shares were listed on the Main Board of the Stock Exchange on 22 June 2022.

Use of Proceeds from the Global Offering

The Company was listed on the Main Board of the Hong Kong Stock Exchange on 22 June 2022. The new shares were issued at HK\$18 per share and a total of 11,961,800 ordinary Shares were offered with a total nominal value of HK\$215.3 million. The net proceeds raised during the Global Offering (net of underwriting commissions and other expenses paid and payable by the Company in connection with the Global Offering) amounted to approximately HK\$153.4 million. Since the Listing Date and up to 31 December 2023, there has been no change in the proposed use of the net proceeds previously disclosed in the Prospectus.

The table below sets forth the use of net proceeds from the Global Offering:

Proposed use of proceeds	Percentage of proposed use of proceeds	Proposed use of net proceeds from the Global Offering	Actual amount used as at 31 December 2023	Unutilized net proceeds as at 31 December 2023	Schedule of unutilized balances
	%	HK\$ million	HK\$ million	HK\$ million	
Sales and Marketing	30	46.0	9.0	37.0	By 30 June 2025
Research and Development	25	38.4	23.7	14.7	By 30 June 2025
Testing Capability and Capacity	20	30.7	19.5	11.2	By 30 June 2025
Investment and Acquisitions	15	23.0	–	23.0	By 30 June 2025
Working Capital and Other Purposes	10	15.3	–	15.3	By 30 June 2025
Total	100	153.4	52.2	101.2	

Note:

1) The figures in the table are approximate figures.

To the extent that the net proceeds from the Global Offering are not immediately used for the above purposes and to the extent permitted by the relevant laws and regulations, we intend to deposit the net proceeds into short-term deposits only with licenced financial institutions in Hong Kong or the PRC. We will make an appropriate announcement if there is any change to the above proposed use of proceeds or if any amount of the proceeds will be used for general corporate purposes.

Rounding

Certain amounts and percentage figures included in this report have been subject to rounding adjustments. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

Directors and Senior Management

Directors

Executive Directors

Dr. Yu Rong (俞榕), aged 52, is an executive Director of the Company, one of our founders and one of our Controlling Shareholders. Dr. Yu joined our Group on 5 January 2016 as a director of Mega Genomics Beijing and was appointed as an executive Director and honorary co-chairperson on 6 August 2021. He is responsible for the overall strategic and business planning of our Group.

Dr. Yu has 22 years' experience in business administration in the healthcare industry.

Dr. Yu founded Meinian OneHealth in 2004 and has served as its director since then.

Since March 1998, Dr. Yu served as the chairperson of Shanghai Tianyi Investment (Group) Co., Ltd. (上海天億實業控股集團有限公司). Since August 2006, Dr. Yu has served as an executive director of Shanghai Tianyi Asset Management Co., Ltd. (上海天億資產管理有限公司).

Since March 2010, Dr. Yu has served as a director of Shenzhen Rapoo Technology Co., Limited (深圳雷柏科技股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange (stock code: 002577).

Since February 2015, Dr. Yu has served as an executive director of Beijing Tianyi Hongfang Investment Management Co., Ltd. (北京天億弘方投資管理有限公司).

Since March 2015, Dr. Yu has served as an executive director and the general manager (from March 2015 to December 2021) of Shanghai Tianyi Hongfang Property Management Co., Ltd. (上海天億弘方物業管理有限公司).

Since January 2016, Dr. Yu has served as a director of Beijing Huamei Kangxun Information Technology Co., Ltd. (北京華媒康訊信息技術股份有限公司), the shares of which are listed on the National Equities Exchange and Quotations ("NEEQ") (stock code: 872612).

From November 2016 to July 2021, Dr. Yu served as a director of Beijing Trust & Far Technology Co., Ltd. (北京銀信長遠科技股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange (stock code: 300231).

Dr. Yu was a member of the Health Promotion and Education Expert Steering Committee of the National Health and Family Planning Commission (國家衛生計生委健康促進與教育專家指導委員會) from May 2017 to December 2019.

Dr. Yu has been the deputy commissioner of The First Management Committee of Health Management Research and Training Special Fund of China Health Promotion Foundation (中國健康促進基金會健康管理研究與培訓專項基金第一屆管理委員會) since January 2019 and the president of the Health Examination Branch of China Association of Non-public Medical Institutions (中國非公立醫療機構協會健康體檢分會) since October 2019.

Since October 2022, Dr. Yu has been an independent non-executive director of Cheerwin Group Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 6601).

Dr. Yu obtained his bachelor's degree in electronic engineering from Shanghai Jiao Tong University (上海交通大學) in the PRC in July 1993 and his master's degree in finance from Shanghai University of Finance and Economics (上海財經大學) in the PRC in August 1999.

Dr. Yu further earned his Ph.D. in basic theory of traditional Chinese Medicine from China Academy of Chinese Medical Sciences (中國中醫科學院) in the PRC in July 2013 and his executive master's degree in business administration (EMBA) from China Europe International Business School (中歐國際工商學院) in the PRC in September 2009.

Ms. Lin Lin (林琳), aged 48, is an executive Director of the Company, the Chairperson of the Board and the chairperson of the Nomination Committee. Ms. Lin started to oversee Mega Genomics Beijing since January 2018 and officially joined our Group in 11 December 2020 when she was officially appointed as a director of Mega Genomics Beijing from December 2020. Ms. Lin manages the day-to-day business and makes management decisions according to the instructions of Dr. Yu during her service at Mega Genomics Beijing.

In March 2021, she was elected as the joint chairperson of Mega Genomics Beijing. Ms. Lin was appointed as a Director on 22 April 2021 and was re-designated as an executive Director and appointed as the Chairperson on 6 August 2021. She is responsible for our Group's overall strategic planning and investor relations and leads our Group's overall operation and management.

Ms. Lin has approximately 22 years of extensive experience in the fields of life and health and corporate operation. From June 2007 to December 2012, Ms. Lin served as the general manager of Harbin Meinianda Health Examination Station Co., Ltd. (哈爾濱美年大健康體檢站有限責任公司), where she was mainly responsible for the daily affairs management and overall operation.

Since January 2013, Ms. Lin has served as a senior vice president and the chief operating officer of Meinian OneHealth. She is mainly responsible for the overall development strategy and daily management and operation of Meinian OneHealth and significantly contributed to the operational and market performance of Meinian OneHealth. Ms. Lin has a unique forward-looking international vision and excellent operation and management experience.

Ms. Lin obtained her master's degree in business management from Peking University (北京大學) in the PRC in January 2017.

Mr. Huang Yufeng (黃宇峰), aged 42, was an executive Director of the Company during the Reporting Period and one of our founders. Mr. Huang joined our Group on 5 January 2017 as the chief marketing officer of Mega Genomics Beijing and was appointed as a director and the chief executive officer of Mega Genomics Beijing on 11 December 2020 and 18 March 2021, respectively. He was appointed as an executive Director on 6 August 2021. He is responsible for the Group's overall marketing strategic planning and sustainable business development. Mr. Huang has approximately 16 years' experience in business administration in the healthcare industry.

From July 2008 to December 2013, Mr. Huang served in various positions at Bayer Pharmaceutical Co., Ltd. (拜耳醫藥有限公司).

From January 2014 to December 2016, Mr. Huang served as the vice general manager of Beijing Joy Orient Translational Medicine Research Center Co., Ltd. (北京德易東方轉化醫學研究中心) where he was responsible for sales and marketing operations.

Directors and Senior Management

Since 5 January 2017, Mr. Huang has served as the chief marketing officer of Mega Genomics Beijing. Since December 2020 to 16 January 2024, Mr. Huang served as a director of Mega Genomics Beijing. Since 18 March 2021 to 16 January 2024, Mr. Huang served as the chief executive officer of Mega Genomics Beijing. Since 29 March 2021, Mr. Huang has served as a legal representative, manager, and executive director of Tianjin Mega Health Technology Co., Ltd. (天津美因健康科技有限公司). From 6 April 2021 to 28 September 2023, Mr. Huang has served as a supervisor of Beijing Mega Medical Devices Co., Ltd. (北京美因醫療器械有限公司). Since 24 June 2021, Mr. Huang has served as a legal representative and executive director of Shanghai Yingce Biotechnology Co., Ltd. (上海熒測生物科技有限公司).

Mr. Huang obtained his master's degree in microbiology from Sichuan University (四川大學) in the PRC in June 2006.

On 17 January 2024, the role of Mr. Huang as an executive Director of the Company was terminated with immediate effect pursuant to Article 105(b) of the second amended and restated memorandum and articles of association of the Company (the "**Articles**") by a notice signed by not less than three-fourths of the Company's directors.

Ms. Jiang Jing (姜晶), aged 44, is an executive Director of the Company. Ms. Jiang joined our Group in November 2020 as the chief financial officer of Mega Genomics Beijing. She was appointed as an executive Director on 6 August 2021. She is responsible for our Group's overall financial strategic planning and investor relations activities. From 17 January 2024, during the vacancy of chief executive officer, Ms. Jiang has assumed the responsibilities of chief executive officer.

Ms. Jiang has approximately 21 years' experience in financial management. From November 2003 to June 2012, Ms. Jiang served as the senior manager in the accounting department of Zhongrui Yuehua Accounting Firm (中瑞岳華會計師事務所). From July 2012 to May 2013, Ms. Jiang served as the senior manager of financial reporting department of Li Ning (China) Sporting Goods Co., Ltd. (李寧(中國)體育用品有限公司). From May 2013 to January 2018, Ms. Jiang served the financial director of Beijing Xinwu Liebo E-Commerce Co., Ltd. (北京心物裂帛電子商務股份有限公司). From January 2018 to November 2020, Ms. Jiang served as the financial director of Beijing New Match Point Sports Investment Co., Ltd. (北京新賽點體育投資股份有限公司), the shares of which are listed on the NEEQ (stock code: 834425).

Ms. Jiang obtained her master's degree in business administration from Yangtze University (長江大學) in the PRC in June 2019.

Non-executive Director

Ms. Guo Meiling (郭美玲), aged 55, is a non-executive Director of the Company, member of the Audit Committee, member of Remuneration Committee and one of our Controlling Shareholders. Ms. Guo joined our Group on 18 March 2021 as a director of Mega Genomics Beijing and was appointed as a non-executive Director and honorary co-chairperson of the Company on 6 August 2021. She is responsible for the overall strategic and business planning of our Group.

Ms. Guo has approximately 22 years of business administration experience. Ms. Guo is the founder of Beijing Shiji Changhe Technology Co., Ltd. (世紀長河科技集團有限公司), and she has served as the director and general manager of the company since October 2002.

Since October 2015, she has served as the vice chairperson of Meinian OneHealth.

She served as the chairperson of Shenyang Dajiankang Management Co., Ltd. (瀋陽美年健康科技健康管理有限公司) since January 2008.

She served as a director of Beijing Joy Indra Hospital Management Ltd. (北京歡樂英卓醫院管理有限公司) since 12 February 2015.

She has served as a chairperson of Shanghai Kanglin Renhe Home Health Care Products Co., Ltd. (上海康林仁和家庭醫療保健用品有限公司) from August 2014 to July 2019.

Since 6 December 2017, Ms. Guo has served as a vice chairperson of Beijing YS Health Technology Co., Ltd. (北京宜生健康科技有限公司).

Since 6 March 2020, Ms. Guo has served as a director of Shanghai Haier Medical Technology Co., Ltd. (上海海爾醫療科技有限公司).

Ms. Guo received her master's degree in business administration from Nanyang Technological University in Singapore in July 2014.

Independent Non-executive Directors

Dr. Zhang Ying (張影), aged 45, joined our Group on 6 August 2021 as an independent non-executive Director. He is also the chairperson of the Remuneration Committee and a member of the Nomination Committee and the Audit Committee of the Company. Dr. Zhang is responsible for supervising and providing independent judgment to our Board.

Dr. Zhang has approximately 15 years' research experience in business management. He is currently a professor of market strategy and behavioral sciences at Peking University Guanghua School of Management, the associate dean, the director of Peking University Management Case Research Center, and the director of Peking University Chicago Center.

Since May 2019, Dr. Zhang has been a director of Dashang Co., Ltd. (大商股份有限公司, the shares of which are listed on the Shanghai Stock Exchange (stock code: 600694)), a department store retail service provider integrating department store chains, supermarket chains and electrical appliances chains. In 2022, Dr. Zhang resigned as a director of Dashang Co., Ltd. (大商股份有限公司).

Directors and Senior Management

Dr. Zhang has served as an independent director of Chongqing Changan Automobile Company Limited (重慶長安汽車股份有限公司) (whose shares are listed on the Shenzhen Stock Exchange (stock code: 000625)) since June 2022, and an independent director of China Film Co., Ltd. (中國電影股份有限公司) (whose shares are listed on the Shanghai Stock Exchange (stock code: 600977)) since October 2022.

Dr. Zhang obtained his master's degree in management from University of Cambridge in the United Kingdom in July 2002. Dr. Zhang further earned his Ph.D. degree from the Graduate School of Business of University of Chicago in the United States in July 2007.

Mr. Jia Qingfeng (賈慶豐), aged 46, joined our Group on 6 August 2021 as an independent non-executive Director. He is also the chairperson of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee of the Company. He is responsible for supervising and providing independent judgment to our Board.

Mr. Jia has approximately 15 years' experience in financial administration and risk control. From September 2008 to April 2017, Mr. Jia served as the chief financial officer and vice general manager of Beijing Kylin Culture Co., Ltd. (北京麒麟網文化股份有限公司), where he was responsible for the construction, development, and operation of the company's financial system, investment and financing, and overseeing all financial matters of the company. In discharging his duties as the chief financial officer, he reviewed and monitored all financial reporting matters including but not limited to its quarterly, interim and annual information, statements and reports during that period until April 2017, to ensure the full, complete and accurate financial disclosure pursuant to the accounting standards and other legal requirements relating thereto. The shares of Beijing Kylin Culture Co., Ltd. (北京麒麟網文化股份有限公司) were listed on NEEQ from 15 December 2015 to 25 October 2017.

From November 2017 to June 2018, Mr. Jia served as the vice president of COL Digital Publishing Group Co., Ltd. (中文在線數字出版集團股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange (stock code: 300364), where he was responsible for the construction, development, and operation of the group's financial and strategic systems. Later from June 2018 to December 2019, Mr. Jia was promoted as the chief financial officer and vice general manager of COL Digital Publishing Group Co., Ltd., during which period he was responsible for formulating major financial decisions and overseeing all financial matters of the company. Specifically, he was responsible for, among other things, reviewing and monitoring the financial reporting matters including its quarterly, interim and annual information, statements and reports to ensure the full, complete and accurate financial disclosure pursuant to the accounting standards and other legal requirements relating thereto.

From June 2018 to December 2019, Mr. Jia also served as a director in Shanghai Chenzhike Information Technology Co., Ltd. (上海晨之科信息技術有限公司) and Crazy Maple Studio, Inc.

Since 1 January 2020, Mr. Jia has served as the general manager of Beijing Fenghua Management Consulting Co., Ltd. (北京豐華管理諮詢有限公司), a company principally providing financial consultancy services to technology companies, where he is responsible for reviewing financial statements and budgets, formulating financial plans and overseeing all financial matters of the company.

Mr. Jia obtained his bachelor's degree in accounting from Beijing Jiao Tong University (北京交通大學) in the PRC in July 2004, and his executive master's degree in business administration (EMBA) from Peking University in the PRC on 28 June 2019. He holds the qualification to practice securities and funds in China granted by the Securities Association of China, the qualification of board secretary granted by both Shenzhen Stock Exchange and Shanghai Stock Exchange and the qualification of M&A dealer granted by China M&A Association in 2016. Based on his extensive practical experience in accounting and finance, Mr. Jia has appropriate professional qualifications or accounting or related financial management expertise pursuant to Rule 3.10(2) of the Listing Rules.

Dr. Xie Dan (謝丹), aged 43, joined our Group on 6 August 2021 as an independent non-executive Director. He is responsible for supervising and providing independent judgment to our Board.

Dr. Xie has approximately 12 years' research experience in the healthcare industry. From September 2011 to March 2015, he was engaged in post-doctoral research at Stanford University, School of Medicine. He has been a researcher and doctoral supervisor of the State Key Laboratory of Biotherapy in Sichuan University (四川大學) since July 2015. From September 2020, he has served as the director of Laboratory of Omics Technology and Bioinformatics, Frontier Science Center of Molecular Networks of Diseases in Sichuan University.

Dr. Xie's research areas are as follows: (1) bioinformatics, high-throughput histology technology, multi-omics data analysis; (2) development of high-throughput, high-resolution single-cell multi-omics composite sequencing technology; (3) single-cell sequencing technology to study molecular mechanisms of tumorigenesis, development and drug resistance; (4) non-invasive liquid biopsy diagnostic technology development and translation; and (5) tri-generation sequencing technology development and application.

Dr. Xie obtained his bachelor's degree in science from the University of Science and Technology of China (中國科學技術大學) and his master's degree in engineering from the University of Science and Technology of China in July 2006. Dr. Xie further earned his Ph.D. in bioengineering from the University of Illinois at Urbana-Champaign in the United States in August 2011.

Directors and Senior Management

Senior Management

Mr. Huang Yufeng (黃宇峰), please refer to the paragraphs headed “Executive Directors” in this section for details.

Ms. Jiang Jing (姜晶), please refer to the paragraphs headed “Executive Directors” in this section for details.

Ms. Li Yan (李艷), aged 38, joined our Group on 15 March 2017 as the head of human resources of Mega Genomics Beijing and is responsible for developing and executing human resources strategy. She was appointed as a joint company secretary on 10 August 2021.

Ms. Li has over 15 years of experience in human resources management. Prior to joining our Group, Ms. Li worked as a human resources manager of Office Depot Network Technology Ltd. (歐迪辦公網絡技術有限公司) from July 2008 to June 2015. From June 2016 to March 2017, Ms. Li served as the head of human resources of Beijing Changkehui Network Information Technology Co., Ltd. (北京常客匯網絡信息技術有限公司).

Ms. Li obtained her bachelor’s degree in English from Yangzhou University (揚州大學) in the PRC in June 2005.

Ms. Li Yan has resigned as the head of human resources of the Company due to personal reasons and has resigned as a joint company secretary with effect from 21 July 2023.

Dr. Yi Xiang (易翔), aged 43, joined our Group on 22 July 2019 as the head of research and development of Mega Genomics Beijing and is responsible for our Group’s product strategy, technology research and development and regulatory review and approval. Dr. Yi has approximately 15 years of experience in the healthcare industry, especially in gene testing services and products in relation to molecular diagnosis.

Prior to joining our Group, from September 2008 to July 2017, Dr. Yi worked as a department manager of molecular diagnosis research and development department of Biosino Bio-Technology and Science Incorporation (中生北控生物科技股份有限公司), the shares of which are listed on the Stock Exchange (stock code: 8247).

From August 2017 to May 2019, Dr. Yi worked as a head of research and development of kits in instrument and reagent department of Beijing Sacred Valley Tongchuang Technology Development Co., Ltd. (北京聖谷同創科技發展有限公司), a company engaged in developing individualized gene testing for disease prediction and treatment.

Dr. Yi obtained his doctor's degree in biochemistry and molecular biology from the Institute of Biophysics, Chinese Academy of Sciences (中國科學院生物物理研究所) in July 2008. He was admitted as a member of the first session of Genetic Testing Branch of China Medical Equipment Association (中國醫學裝備協會基因檢測分會) in September 2020.

Dr. An Xia (安霞), aged 40, joined our Group on 19 December 2017 as the head of operation of Mega Genomics Beijing and is responsible for the operation and overall planning and management of our Group's operation platform. Dr. An has over 9 years of experience in the production department of various corporations.

Prior to joining our Group, Dr. An worked as the head of transgenosis department of Beijing Jinguanfeng Biotechnology Co., Ltd. (北京金冠豐生物技術有限公司) from June 2013 to March 2016.

From March 2016 to December 2017, Dr. An worked as the manager of molecular marker department of China Golden Marker (Beijing) Biotech Co., Ltd. (中玉金標記(北京)生物技術股份有限公司), where she was responsible for the operation and management of the high throughput laboratory.

Dr. An obtained her doctor's degree in plant nutrition from China Agricultural University (中國農業大學) in the PRC in July 2013.

Mr. Li Cong (李琮), aged 40, joined our Group on 1 August 2017 as the head of information technology and is responsible for the strategic development and management of technology platform and IT operations. Mr. Li has approximately 17 years of experience in software engineering.

Prior to joining our Group, from December 2006 to January 2011, Mr. Li worked as a software engineer of VancelInfo Technologies Inc. (文思創新軟件技術有限公司), a senior software engineer of Beyondsoft (Beijing) Co., Ltd. (博彥信息科技(北京)有限公司) (formerly known as Dazhan Information Technology (Beijing) Co., Ltd (大展信息科技(北京)有限公司)) and a senior software engineer of GEONG Business Networks Limited (北京新智互連雲技術有限公司) (formerly known as Beijing Xinrui Interactive Business Network Co., Ltd (北京新銳互動商業網絡有限公司)).

From February 2011 to July 2017, Mr. Li served as the department manager of Office Depot Network Technology Ltd. (歐迪辦公網絡技術有限公司).

Mr. Li obtained his master's degree in software engineering from Beijing University of Aeronautics and Astronautics (北京航空航天大学) in the PRC in June 2019.

Corporate Governance Report

The Board is pleased to update the Shareholders on the corporate governance of the Company for the year ended 31 December 2023.

Corporate Governance Culture

The Company is committed to maintaining and promoting stringent corporate governance. The principle of the Company's corporate governance is to promote effective internal control measures, uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of its business, to ensure that its affairs are conducted in accordance with applicable laws and regulations and to enhance the transparency and accountability of the Board to all Shareholders.

Corporate governance is the process by which the Board instructs the management of the Group on how to run the business to ensure that objectives are met. The Board is committed to maintaining and establishing sound corporate governance practices, so as to:

- deliver satisfactory and sustainable returns to Shareholders;
- safeguard the interests of those who have business dealings with our Company;
- understand and appropriately manage overall business risks;
- provide high quality products and services to the satisfaction of our customers; and
- maintain high ethical business standards.

Corporate Governance Practices

The Board is committed to maintaining good standards of corporate governance.

The Board considers that good corporate governance standards are key to providing a framework for the Company to protect the interests of Shareholders, enhance corporate value, formulate business strategies and policies, and enhance transparency and accountability.

The Company has adopted the code provisions of the CG Code as set out in Appendix C1 to the Listing Rules as the basis of the Company's corporate governance practices.

In the opinion of the Directors, the Company has complied with all applicable code provisions as set out in the CG Code throughout the year ended 31 December 2023.

Model Code for Securities Transactions

The Company has adopted the Model Code as the code of conduct for Directors of the Company in securities transactions.

After making specific enquiries to all Directors, the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2023.

The Company has also established written guidelines no less exacting than the Model Code for securities transactions by employees who, by reason of their duties or employment, may have access to inside information about the Company or its securities (the “**Written Guidelines for Employees**”). To the best of the Company’s knowledge, there has been no breach of the Written Guidelines for Employees by employees.

The Board

The Company is led by an effective Board, which is responsible for its leadership and control and is collectively responsible for promoting the success of the Company by directing and supervising the affairs of the Company. The Directors objectively make decisions that are in the best interests of the Company.

The Board has a balance of skills, experience and diversity of perspectives suited to the business requirements of the Company and regularly reviews the contributions required of the Directors to perform their responsibilities with the Company and whether the Directors have spent sufficient time making contributions commensurate with their roles and Board responsibilities. The Board has a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that the Board has a strong element of independence and is able to exercise independent judgment effectively.

Board Composition

The Board currently consists of seven Directors, including three executive Directors, one non-executive Director and three independent non-executive Directors.

Executive Directors

Dr. Yu Rong

Ms. Lin Lin (*Chairperson*)

Ms. Jiang Jing ^(Note 1)

Mr. Huang Yufeng (*Chief Executive Officer*) ^(Note 2)

Non-executive Director

Ms. Guo Meiling

Independent Non-executive Directors

Dr. Zhang Ying

Mr. Jia Qingfeng

Dr. Xie Dan

Note 1: Ms. Jiang Jing acted as the Chief Executive Officer during the position being held vacant since 17 January 2024.

Note 2: Mr. Huang Yufeng ceased to act as a Director and Chief Executive Officer with effect from 17 January 2024

Corporate Governance Report

The biographies of Directors are set out under the section headed “Directors and Senior Management” of this annual report. The relationships among the Directors are disclosed in the biographical details of each Director under the section headed “Directors and Senior Management” of this annual report. Save as disclosed above, there is no relationship (including financial, business, family or other material/relevant relationship) among members of the Board, in particular between the Chairperson and the Chief Executive Officer.

Attendance Records of Directors

During the year ended 31 December 2023, the Company held six Board meetings, two meetings of the Audit Committee, one meeting of the Remuneration Committee and one meeting of the Nomination Committee, as well as one annual general meeting.

The following table sets out the attendance records of each of the Board meetings, Board committee meetings and general meeting of the Company held during the year ended 31 December 2023:

Name of Directors	Attendance/Number of Meetings				
	The Board	Audit Committee	Remuneration Committee	Nomination Committee	2023 Annual General Meeting
Executive Directors					
Dr. Yu Rong	6/6	N/A	N/A	N/A	0/1
Ms. Lin Lin	6/6	N/A	N/A	1/1	1/1
Ms. Jiang Jing	6/6	N/A	N/A	N/A	1/1
Mr. Huang Yufeng ^(Note)	6/6	N/A	N/A	N/A	0/1
Non-executive Director					
Ms. Guo Meiling	6/6	2/2	1/1	N/A	1/1
Independent Non-executive Directors					
Dr. Zhang Ying	6/6	2/2	1/1	1/1	1/1
Mr. Jia Qingfeng	6/6	2/2	1/1	1/1	1/1
Dr. Xie Dan	6/6	N/A	N/A	N/A	0/1

Note: Ceased to act as a Director with effect from 17 January 2024

The Company shall hold at least four regular Board meetings per year and a majority of the Directors shall actively participate in person or through electronic communication. The Company will fully comply with code provision C.5.1 of the CG Code and will convene at least four Board meetings annually at approximately quarterly intervals.

In addition to the regular Board meetings, the chairperson also held one meeting with the independent non-executive Directors without the presence of other Directors during the current year.

Responsibilities, Accountabilities and Contributions of the Board and the Management

The Board shall be responsible for the leadership and control of the Company; and shall be jointly responsible for directing and supervising the affairs of the Company.

The Board oversees the operational and financial performance of the Group and ensures the integrity of the internal control and risk management systems by setting strategies and overseeing their implementation, leading and guiding the management directly and indirectly through its committees.

All Directors, including non-executive Director and independent non-executive Directors, bring to the Board a wealth of valuable business experience, knowledge and expertise to enable the Board to operate efficiently and effectively. The independent non-executive Directors are responsible for ensuring a high level of regulatory reporting of the Company and act as a balance within the Board to exercise effective independent judgment on the actions and operations of the Company.

All Directors have full and timely access to all information relating to the Company and may, on request and where appropriate, seek independent professional advice at the Company's expense in the performance of their duties with the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all material matters of the Company, including policy matters, strategies and budgets, internal controls and risk management, major transactions (particularly those that may involve conflicts of interest), financial information, appointment of Directors and other important operational matters. The management is responsible for implementing Board decisions, directing and coordinating the day-to-day operations and management of the Company.

The Company has arranged appropriate liability insurance for Directors and the management in respect of any legal proceedings against them arising from the Company's activities and will review the coverage of such insurance annually.

Chairperson and Chief Executive Officer

The position of Chairperson is held by Ms. Lin Lin. Following the termination of Mr. Huang Yufeng's role as Chief Executive Officer on 17 January 2024, Ms. Jiang Jing, an executive Director, assumes the responsibilities of the Chief Executive Officer during the vacancy. The Chairperson provides leadership and is responsible for the effective operation and leadership of the Board. The Chief Executive Officer is primarily responsible for the overall business development and day-to-day management and operations of the Company.

Corporate Governance Report

Independent Non-executive Directors

During the year ended 31 December 2023, the Board at all time has been in compliance with the requirements of the Listing Rules in relation to the appointment of at least three independent non-executive Directors, the requirement that independent non-executive Directors must constitute one-third of the Board and that one of the independent non-executive Directors must have appropriate professional qualifications or accounting or related financial management expertise.

The Company has received from each of the independent non-executive Directors an annual written confirmation of their independence pursuant to the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent.

Board Independence Assessment

The Company has developed an independence assessment mechanism for the Board which contains processes and procedures to ensure that the Board has a strong element of independence to enable the Board to exercise its independent judgment effectively and to better safeguard the interests of Shareholders.

The assessment aims to enhance the effectiveness of the Board, maximize its advantages, and identify areas for improvement or further development. The assessment process also clarifies the actions the Company needs to take to maintain and improve the performance of the Board, for example, by addressing the individual training and development needs of each Director.

Under the Board Independence Assessment mechanism, the Board conducts an annual review of its independence. The Board Independence Assessment Report will be presented to the Board and the Board will collectively discuss the results and action plans for improvement where appropriate.

For the year ended 31 December 2023, the independence assessment was completed by all Directors using separate questionnaires. The Board was presented with a report on the Board Independence Assessment and the results were satisfactory.

For the year ended 31 December 2023, the Board reviewed the implementation and effectiveness of the Board Independence Assessment mechanism and the results were satisfactory.

Mechanism of Board's Independent Views

The Board has implemented different approaches to ensure that the Board receives independent views and insights. The Board reviews the implementation and effectiveness of such mechanism annually. The Board considers that such mechanism has been effectively and properly implemented.

The mechanism is disclosed as follows:

- (i) **Composition.** The Board is committed to ensuring that at least three independent non-executive Directors are appointed and at least one-third of the members are independent non-executive Directors (or such higher minimum number as may from time to time be required by the Listing Rules) and that at least one of the independent non-executive Directors has appropriate professional qualifications, or accounting or related financial management expertise. The Company will also appoint independent non-executive Directors to join the Board committees as required by the Listing Rules and where practicable, to ensure that the Board has an independent perspective.

- (ii) Independence assessment. The Nomination Committee, in nominating and appointing independent non-executive Directors, will strictly adhere to the Director Nomination Policy of the Company and the independence assessment criteria for nominating and appointing independent non-executive Directors as set out in the Listing Rules, and is authorised to assess the independence of independent non-executive Directors annually to ensure their continued exercise of independent judgement.
- (iii) Board decisions. Our Directors, including our independent non-executive Directors, may, upon reasonable request, seek independent professional advice at our Company's expenses to assist in the performance of their duties. The Board should ensure that the independent non-executive Directors are provided with independent advice and adequate input to enable them to discharge their duties. If a substantial Shareholder or a Director is deemed to have material conflict of interests in the matter to be considered by the Board of Directors, the matter shall be dealt with in a Board meeting. A Director who is materially interested in a contract, transaction or arrangement shall not vote on any resolution of the Board approving such contract, transaction or arrangement nor shall such Director be counted in the quorum of the meeting.
- (iv) The Board assesses the time commitment of each independent non-executive Directors and their attendance at the meetings of the Board and the Board committees and ensures that each independent non-executive Directors is spending sufficient time on the Board to discharge his/her duties as a Director of the Company.
- (v) Review of the implementation of this mechanism. The Board (or a committee delegated by the Board) shall review the implementation and effectiveness of this mechanism annually. Save as disclosed in this annual report, there is no other financial, business, family or other material/relevant relationships existing among the Directors.

Appointment and Re-election of Directors

The non-executive Directors of the Company (including independent non-executive Directors) are appointed for specific terms of three years, renewable upon the expiry of their current terms.

All Directors are subject to retirement by rotation and re-election at the annual general meeting. Pursuant to Article 108 of the Company's Articles of Association, at each annual general meeting, one-third of the Directors in office (or, if the number of Directors is not three or a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The Articles of Association of the Company also provide that all Directors appointed to fill a casual vacancy or as an addition to the Board shall hold office until the first annual general meeting after their appointment. A retiring Director is eligible for re-election.

Continuing Professional Development of Directors

Directors are expected to keep abreast of regulatory developments and changes, to perform their duties effectively and to ensure that their contributions to the Board remain informed and relevant.

All Directors have received formal and comprehensive training courses covering a wide range of topics including but not limited to the responsibilities and obligations of Directors under the Listing Rules and relevant statutory requirements, corporate governance and the ongoing responsibilities of a listed company.

Corporate Governance Report

For each newly appointed Director, the Company will arrange a comprehensive, formal and tailored induction session for his/her appointment to ensure that he/she has a proper understanding of the business and operations of the Company and his/her duties as a Director of a listed company under the relevant acts, laws, regulations and rules. Such orientation training shall be supplemented by visits to the Company's major plants and meetings with the Company's senior management.

Directors shall participate in appropriate continuing professional development to develop and refresh their knowledge and skills. In due course, the Company will arrange briefings for Directors within the Company and distribute readings on the subject to Directors. The Company encourages all Directors to attend relevant training courses at the Company's expenses.

For the year ended 31 December 2023, the relevant readings include compliance manuals/legal and regulatory updates/seminar handouts, which have been made available to Directors for reference and study.

The Directors' training record for the year ended 31 December 2023 is summarized as follows:

Directors	Attending training sessions, including but not limited to briefings, seminars, conference and workshop
Executive Directors	
Dr. Yu Rong	✓
Ms. Lin Lin	✓
Ms. Jiang Jing	✓
Mr. Huang Yufeng ^(Note)	✓
Non-Executive Director	
Ms. Guo Meiling	✓
Independent Non-Executive Directors	
Dr. Zhang Ying	✓
Mr. Jia Qingfeng	✓
Dr. Xie Dan	✓

Note: Ceased to act as a Director with effect from 17 January 2024

Board Committees

The Board has established three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, to oversee specific aspects of the Company's affairs. All the Board Committees of the Company are established in accordance with specific written terms of reference which clearly set out their authorities and responsibilities. The terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee are set out on the Company's website and the website of the Stock Exchange and are available for inspection by Shareholders upon request.

Audit Committee

The Audit Committee comprises three members, including two independent non-executive Directors, namely Mr. Jia Qingfeng and Dr. Zhang Ying, and one non-executive Director, namely Ms. Guo Meiling. Mr. Jia Qingfeng is the chairperson of the Audit Committee.

The terms of reference of the Audit Committee are no less exacting than those set out in the CG Code. The primary duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, the effectiveness of the internal audit function, the scope and appointment of the external auditor and to review the Company's arrangements for employees of the Company to raise concerns about possible improprieties in the Group's financial reporting, internal control or other matters.

For the year ended 31 December 2023, the Audit Committee met twice to review the annual financial results and report in respect of the year ended 31 December 2022 and the interim financial results and report in respect of the six months ended 30 June 2023, respectively, as well as significant matters relating to financial reporting, operational and compliance controls, risk management and internal control systems, the effectiveness of the internal audit function, the appointment of the external auditor and the commencement of non-audit services and to review the related scope of work and connected transactions and arrangements to enable employees to raise concerns about possible irregularities.

The Audit Committee also met once with the external auditors in the absence of the executive Directors.

Remuneration Committee

The Remuneration Committee comprises three members, including two independent non-executive Directors, namely Dr. Zhang Ying and Mr. Jia Qingfeng, and one non-executive Director, namely Ms. Guo Meiling. Dr. Zhang Ying is the chairperson of the Remuneration Committee.

The terms of reference of the Remuneration Committee are no less exacting than those set out in the CG Code. The principal functions of the Remuneration Committee are to determine and review and make recommendations to the Board on the remuneration packages of individual executive Directors and senior management, the policy and structure of remuneration for all Directors and senior management, and to establish a transparent procedure and structure for developing such remuneration policy to ensure that no Director or any of his/her associates will be involved in deciding his/her own remuneration, assessing the performance of executive Directors, approving the terms of executive Directors' service contracts, reviewing and/or approving issues in relation to share schemes under Chapter 17 of the Listing Rules.

For the year ended 31 December 2023, the Remuneration Committee met once to consider the policy for the remuneration of Directors and senior management.

Corporate Governance Report

For the year ended 31 December 2023, for the remuneration of senior management (excluding executive Directors, whose biographical details are set out under the section headed “Directors and Senior Management” of this annual report), please refer to the section headed “Employee Benefits”.

The Company’s remuneration policy is designed to ensure that the remuneration offered to employees, including Directors and senior management, is based on skills, knowledge, responsibility and involvement in the Company’s affairs.

The remuneration packages of the executive Directors are also determined with reference to the performance and profitability of the Company, prevailing market conditions and the performance or contribution of each executive Director. The remuneration of the executive Directors comprises basic salary, pension and discretionary bonus. Executive Directors are entitled to the restricted share units granted under the Company’s RSU Scheme.

The remuneration policy for non-executive Directors and independent non-executive Directors is designed to ensure that non-executive Directors and independent non-executive Directors are adequately remunerated for their efforts and time spent on the Company’s affairs, including their participation in Board committees. Non-executive Directors are entitled to the granted restricted share units under the Company’s RSU Scheme. The remuneration of independent non-executive Directors consists mainly of Directors’ remuneration, which is determined by the Board with reference to their responsibilities.

Each Director and senior management has no role in determining his/her own remuneration.

Nomination Committee

The Nomination Committee comprises three members, including one executive Director, namely Ms. Lin Lin, and two independent non-executive Directors, namely Dr. Zhang Ying and Mr. Jia Qingfeng. Ms. Lin Lin is the chairperson of the Nomination Committee.

The terms of reference of the Nomination Committee are no less exacting than those set out in the CG Code.

The major duties of the Nomination Committee include reviewing the composition of the Board, establishing and formulating procedures relating to the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, reviewing the Board Diversity Policy and Director Nomination Policy, and assessing the independence of independent non-executive Directors.

In evaluating the composition of the Board, the Nomination Committee will consider all aspects and factors relating to Board diversity as set out in the Company’s Board Diversity Policy. The Nomination Committee will discuss and agree on measurable goals for achieving Board diversity, as necessary, and recommend such goals to the Board for adoption.

In identifying and screening suitable candidates for Directors, the Nomination Committee will consider the relevant candidate criteria set out in the Director Nomination Policy, if applicable, as necessary to complement corporate strategy and achieve Board diversity before recommending candidates to the Board.

For the year ended 31 December 2023, the Nomination Committee met once to review the structure, size and composition of the Board and the independence of the independent non-executive Directors. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

Board Diversity Policy

The Board Diversity Policy adopted by the Company sets out ways to achieve Board diversity and is available on the Company’s website. The Company understands and recognizes the benefits of Board diversity and believes that increased Board diversity is an important element in maintaining the Company’s competitive advantage.

In accordance with the Board Diversity Policy, the Nomination Committee regularly reviews the structure, size and composition of the Board and, where appropriate, makes recommendations for changes to the Board to complement the Company’s corporate strategy and to ensure that the Board maintains a balanced and diverse image. For the purpose of reviewing and evaluating the composition of the Board, the Nomination Committee is committed to achieving diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and geographical and industry experience.

The Company aims to maintain an appropriate balance of diversity perspectives in relation to the growth of the Company’s business and is committed to ensuring that recruitment and selection practices at all levels (from under the Board level) are structured so that a diverse pool of candidates is available for consideration.

An analysis of the current composition of the Board against measurable objectives is set out below:

Gender	Age Group
--------	-----------

Male: 4 Directors	41-50: 5 Directors
Female: 3 Directors	51-60: 2 Directors

Designation	Educational Background
-------------	------------------------

Executive Directors: 3 Directors	Business Administration: 4 Directors
Non-executive Director: 1 Director	Accounting and Finance: 2 Directors
Independent Non-executive Directors: 3 Directors	Other: 1 Directors

Nationality	Business Experience
-------------	---------------------

Chinese: 7 Directors	Accounting and Finance: 2 Directors
	With experience related to the Company’s business: 5 Directors

The Nomination Committee and the Board considered that the current composition of Board is sufficiently diverse.

The Nomination Committee will review the Board Diversity Policy in a timely manner to ensure its effectiveness.

Corporate Governance Report

Gender Diversity

The Company values gender diversity at all levels of the Group. The following table shows the gender ratio of the Group's workforce (including the Board and the senior management) as at the date of this annual report:

	Female	Male
Board	42.9%	57.1%
Senior management	81.8%	18.2%
Other employees	37.6%	62.4%
Total number of employees	39.7%	60.3%

The Board will review the quantifiable goals related to the composition of the Board in accordance with the Board Diversity Policy, and consider setting quantifiable goals to implement the Board Diversity Policy and review such goals from time to time to ensure their appropriateness and determine the progress in achieving such goals. To implement the Board Diversity Policy, the Board has adopted a quantifiable goal, i.e. having at least two female Board members at any given time. For the year ended 31 December 2023, the Board had three female members. As such, the Board considered that the current gender diversity of the Board has met the goal set by the Company.

The Board will use its best endeavours to actively identify women who are qualified to become members of our Board, taking into account the business needs of our Company and the changes from time to time which may affect the business plans of our Company. The Company will continue to ensure gender diversity when recruiting staff at the mid to senior level so that there will be different gender of senior management and potential successors to the Board as and when appropriate to ensure gender diversity of the Board. The Company will continue to attach importance to the training of talents of different genders and provide long-term development opportunities for employees of different genders.

Details of the Group's gender ratio and related data are set out in the Environmental, Social and Governance Report on pages 75 to 76 of this annual report. For the year ended 31 December 2023, the Nomination Committee considered the gender diversity policy of the Board to be effective.

Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted the Director Nomination Policy which sets out the selection criteria and nomination procedures relating to the nomination and appointment of Directors of the Company and the Board's succession planning considerations with the aim of ensuring that the Board has a balance of skills, experience and diversity of viewpoints appropriate to the Company and to ensure the continuity of the Board and the maintenance of its appropriate leadership.

The nomination process set out in the Director Nomination Policy is as follows:

Appointment of New Director

- (i) The Nomination Committee or the Board may select candidates for Directors through a variety of channels, including but not limited to internal promotion, reassignment, recommendation by other members of the management and external recruitment agents.
- (ii) Upon receipt of a proposal for the appointment of a new Director and the candidate's biographical information (or relevant details), the Nomination Committee or the Board shall evaluate the candidate against the above criteria to determine whether the candidate is qualified to serve as a Director.
- (iii) If the process involves one or several prospective candidates, the Nomination Committee or the Board shall review (if applicable) and prioritize them based on the needs of the Company and the testimony of each candidate.
- (iv) The Nomination Committee shall then make a recommendation to the Board, as applicable, regarding the appointment of a suitable person to serve as a Director.
- (v) With respect to any person nominated by a Shareholder for election as a Director at a general meeting of the Company, the Nomination Committee or the Board shall evaluate the candidate in accordance with the above criteria to determine whether the candidate is qualified to serve as a Director.

If appropriate, the Nomination Committee or the Board shall make a recommendation to the Shareholders regarding the proposal for election of Directors at the general meeting.

Re-election of Director at General Meeting

- (i) The Nomination Committee or the Board shall review the overall contribution and service of the retiring Directors to the Company, as well as the degree of participation and performance on the Board.
- (ii) The Nomination Committee or the Board shall also review and determine whether the retiring Directors still meet the criteria set out above.
- (iii) The Nomination Committee or the Board shall then make a recommendation to the Shareholders regarding the proposal for re-election of Directors at the general meeting.

If the Board intends to propose a resolution for the election or re-election of a candidate as a Director at a general meeting, the circular or explanatory letter to Shareholders accompanying the notice of the general meeting will disclose information about the candidate as required by the Listing Rules or applicable laws and regulations.

Corporate Governance Report

The Director Nomination Policy contains criteria for assessing the suitability and potential contribution to the Board of the proposed candidate, including but not limited to the following:

- character and integrity;
- qualifications, including professional qualifications, skills, knowledge and experience relevant to the Company's business and corporate strategy;
- diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- the requirements of independent non-executive Directors on the Board and the proposed independence of the independent non-executive Directors in compliance with the Listing Rules; and
- the commitment of available time and related benefits for the purpose of performing their duties as members of the Board or a committee of the Board of the Company.

During the year ended 31 December 2023, there was no change in the composition of the Board.

The Nomination Committee will review the Director Nomination Policy in a timely manner to ensure its effectiveness.

Corporate Governance Functions

The Board is responsible for performing the functions as set out in code provision A.2.1 of the CG Code.

During the current year, the Board reviewed the Company's corporate governance policies and practices, the trainings and continuing professional development of Directors and senior management, the Company's policies and practices in respect of compliance with legal and regulatory requirements, compliance with the Model Code and the Written Guidelines for Employees and the Company's compliance with the CG Code as disclosed in this Corporate Governance Report.

Risk Management and Internal Control

The Board is responsible for the risk management and internal control systems and reviews their effectiveness. Such systems are used to manage, rather than eliminate, the risk of failure to achieve business objectives and provide only reasonable assurance, rather than absolute assurance, that no material misstatement or loss has occurred.

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing the design, implementation and monitoring of its risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines and has delegated certain authority for implementation by key business procedures and office functions including project management, sales and leasing, financial reporting, human resources and information technology.

All segments/divisions conduct regular internal control assessments to identify risks that may affect the Group's business and key operational and financial processes, regulatory compliance and information security. Each segment/division conducts annual self-assessment to confirm proper compliance with control policies.

The management, in coordination with the segment/division heads, assesses the probability of risk, provides response plans and monitors the risk management process and reports all results and the effectiveness of the system to the Audit Committee and the Board.

The management has confirmed to the Board and the Audit Committee the effectiveness of the risk management and internal control systems for the year ended 31 December 2023. During the Reporting Period, the Board has reviewed the effectiveness of the Group's risk management and internal control systems and ensured that the resources, staff qualifications and experience, as well as the training courses and relevant budgets received by the staff in the aspects of accounting, internal audit, financial reporting and environmental, social and governance performance and reporting were sufficient. The Company continued to improve the standardized and systematic internal monitoring system, covering financial monitoring, operational monitoring, compliance monitoring and risk management functions.

Our objectives for information system management are to identify, assess, monitor and control information technology risks by establishing an effective mechanism to operate our business in a safe, continuous, stable and compliant environment.

We have implemented a financial reporting system, consisting of policies and procedures for: (i) bottom-up financial reporting: in the ordinary course of business, the financial personnel shall report to the manager of the financial department and the chief financial officer level by level. Any new business the accounting treatment methods for which has not been stipulated shall be reported to the chief financial officer in a timely manner; (ii) top-down inquiries: the audit personnel at the group level can request financial information from any member of the Group as work requires and ask questions about the information provided; and (iii) assignment of responsibilities: relevant financial personnel perform document verification, review and bookkeeping in the accounting system according to their duties and authorities. With these policies and procedures, we aim to ensure that the information reported and disclosed in the financial report is true, complete, accurate and timely.

We value the importance of our internal audit, as it is essential to our stable operation and sustainable development. The objectives of our internal audit are to monitor the implementation of applicable laws and regulations and our internal policies, procedures and standard operational procedures, to control our risk exposure at an acceptable level and to improve our business operations. We have implemented an independent and vertical organizational system for our internal audit. We set up an Audit Committee under the Board of Directors to organize and guide our internal audit work.

The Company has engaged an external professional firm to provide an internal audit function and to conduct an independent review of the adequacy and effectiveness of the risk management and internal control systems. The critical issues relating to accounting practices and all material controls are reviewed and their findings and recommendations for improvement are made to the Audit Committee.

The Board, as supported by the Audit Committee as well as the management report, conducted annual review of the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2023, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and staff qualifications, experiences and relevant resources.

Corporate Governance Report

The Company has a whistle-blowing policy that allows employees of the Company and others who deal with the Company to raise their concerns about any possible improprieties regarding the Company to the Audit Committee on a confidential and anonymous basis.

The Company also has an anti-corruption policy to prevent corruption and bribery within the Company. The Company has an internal reporting channel for employees of the Company to report any suspected corruption or bribery. Employees can also report anonymously to the internal anti-corruption department, which is responsible for investigating the reported incidents and taking appropriate measures. The Company continues to carry out anti-corruption activities, cultivate a culture of integrity and actively organizes anti-corruption trainings and inspections to ensure the effectiveness of its anti-corruption efforts.

The Company has formulated its disclosure policy to provide general guidelines to the Directors, senior management and relevant employees of the Company in handling confidential information, monitoring disclosure and responding to inquiries. The Company has implemented control procedures to ensure that unauthorized access to and use of inside information is strictly prohibited.

Responsibilities of the Directors for the Financial Statements

The Directors are aware that they are responsible for the preparation of the financial statements with the support of the accounting and finance team.

The Directors have prepared the financial statements in accordance with HKFRS. In addition to adopting the revised standards, amendments to standards and interpretations, the Company has also consistently used and applied appropriate accounting policies.

The financial statements of the Company have been prepared on a going concern basis and, in the opinion of the Directors, give a true and fair view of the financial position, results and cash flows of the Group for the year ended 31 December 2023, and the other financial information and disclosures in the report comply with relevant legal requirements.

A statement by the Company's external auditors regarding their reporting responsibilities on the financial statements is included in the Independent Auditor's Report in this annual report.

Auditors' Remuneration

For the year ended 31 December 2023, the remuneration paid/payable to the external auditor of the Company, Ernst & Young, for audit services and non-audit services were RMB1.2 million and nil, respectively.

Company Secretary

Ms. Li Yan resigned as a joint company secretary of the Company with effect from 21 July 2023.

Following the resignation of Ms. Li, Ms. Ng Wai Kam, a senior manager of Corporate Services of Tricor Services Limited (an external service provider), as the other joint company secretary of the Company who meets the requirements of a company secretary under Rule 3.28 of the Listing Rules, will remain in office and act as the sole company secretary of the Company.

All Directors have access to the advice and services of the Company Secretary in respect of corporate governance, Board practices and matters.

Ms. Jiang Jing, an executive Director, has been designated as the primary contact person of the Company to cooperate and communicate with Ms. Ng on corporate governance, secretarial and administrative matters of the Company.

During the year ended 31 December 2023, Ms. Ng Wai Kam has received not less than 15 hours of relevant professional training pursuant to Rule 3.29 of the Listing Rules.

Shareholders' Rights

Convening of extraordinary general meetings

Pursuant to Article 64 of the Articles of Association of the Company, the Board may convene an extraordinary general meeting at such time as it thinks fit.

An extraordinary general meeting may also be convened on the requisition of one or more Shareholders holding, at the date of the requisition, not less than one-tenth of the voting rights of the share capital of the Company (on the basis of one vote per share). Such requisition shall be made in writing to the Board or the secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting forward proposals at general meetings

There is no provision in the Articles of Association or the Companies Act of the Cayman Islands for the procedure for a resolution to be proposed by a member at a general meeting. Shareholders wishing to propose a resolution may request the Company to convene a general meeting to consider the matters specified in the request in accordance with the procedures set out in the paragraph above.

Putting forward enquiries to the Board

Shareholders may send any enquiries they may have to the Board in writing to the Company by post. The Company will not handle verbal or anonymous enquiries in general.

Contact Details

Shareholders may send such enquiries or the above requests to the following address:

Head office and principal place of business in the PRC:
401 Health Work, North Garden Road, Haidian District, Beijing, PRC

Principal place of business in Hong Kong:
5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong

Email: ir@megagenomics.cn

Corporate Governance Report

For the avoidance of doubt, Shareholders shall submit and send the original of a duly signed written request, notice or statement or enquiry, as the case may be, marked "To the Board or the Company Secretary" with their full names, contact details and identities to the above address for reply by the Company. Shareholder information may be disclosed as required by law.

Communication with Shareholders and Investors

The Company believes that effective communication with Shareholders is particularly important in strengthening investor relations and enhancing investors' understanding of the Group's business performance and strategies. The Company is committed to maintaining continuous communication with its Shareholders, particularly at annual general meetings and other general meetings. The Directors will attend the forthcoming annual general meeting to meet with Shareholders and answer their questions.

To protect the interests of Shareholders, separate resolutions shall be proposed at general meetings for each substantially separate issue, including the election of individual Directors. In accordance with the Listing Rules, all resolutions proposed at general meetings will be voted on by poll and the poll results will be announced on the websites of the Company and the Stock Exchange after each general meeting.

Shareholders' Communication Policy

The Company has established a Shareholders' Communication Policy. The policy aims to facilitate effective communication with Shareholders and other stakeholders, encourage active participation of Shareholders in the affairs of the Company and enable Shareholders to exercise their rights as Shareholders effectively. The Board has reviewed the implementation and effectiveness of the Shareholders' Communication Policy and the results are satisfactory.

The Company has established various channels to maintain an ongoing dialogue with Shareholders as follows:

(a) Corporate Communication

"Corporate Communication" (as defined in the Listing Rules) means any document issued or to be issued by the Company for the information or action of holders of any of its securities, including but not limited to the following documents of the Company: (a) the Directors' Report, the Annual Accounts together with the Auditors' Report and the Summary Financial Report (where applicable); (b) the Interim Report and the Interim Summary Report (where applicable); (c) Notice of meetings; (d) Listing Documents; (e) Circulars; and (f) Proxy Form.

The corporate communications of the Company will be published on the website of the Stock Exchange (www.hkex.com.hk) in a timely manner in accordance with the requirements of the Listing Rules. The corporate communications will be made available to Shareholders and non-registered holders of securities of the Company in a timely manner in bilingual versions or, where permitted, in a single language, in accordance with the requirements of the Listing Rules. Shareholders and non-registered holders of securities of the Company have the right to choose the language (English or Chinese) or the means of receipt (printed form or electronic form) of the corporate communications.

(b) Publication of announcements and other documents under the Listing Rules

The Company is required to publish announcements (in relation to inside information, corporate actions and transactions, etc.) and other documents (such as the Memorandum and Articles of Association) on the website of the Stock Exchange in a timely manner in accordance with the Listing Rules.

(c) Company's website

Any information or documents published by the Company on the website of the Stock Exchange will also be published on the Company's website (www.megagenomics.cn). Additional corporate information relating to the Company's business development, objectives and strategies, corporate governance and risk management will also be published on the Company's website.

(d) General meeting

The annual general meeting and other general meetings of the Company are the principal forum for the Company to communicate with its Shareholders. The Company shall provide relevant information to its Shareholders on resolutions at general meetings in a timely manner as required by the Listing Rules. The information provided shall be reasonably necessary to enable the Shareholders to make an informed decision on the proposed resolutions.

Shareholders are encouraged to attend general meetings or, if they are unable to attend the meeting, they may appoint a proxy to attend and vote on their behalf. Where appropriate or necessary, the chairperson of the Board and other Board members, the chairperson of Board committees or their representatives and the external auditors shall attend general meetings of the Company to answer Shareholders' questions, if any. The independent non-executive Directors shall also be available to answer questions at any general meeting to approve connected transactions or any other transactions subject to approval by the independent Shareholders.

(e) Shareholders' enquiries

Enquiries about shareholdings

Shareholders who wish to enquire about their holdings may contact us through the online shareholding enquiry service of the Company's Hong Kong share registrar, Tricor Investor Services Limited, at www.tricoris.com, or send email to is-enquiries@hk.tricorglobal.com, call its hotline 2980 1333, or come in person at the public counter on 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

Enquiries about corporate governance or other matters to be put to the Board and the Company

The Company will not handle verbal or anonymous enquiries in general. Shareholders may send any enquiries to the Board by email at ir@megagenomics.cn or by mail to 401 Health Work, North Garden Road, Haidian District, Beijing, PRC.

(f) Broadcast

The Company provides broadcasts of the Company's interim and annual results presentations.

(g) Other investor relations communication platforms

The Company will organize investor/analyst briefings, (domestic and international) roadshows, media interviews, investor marketing activities and professional industry forums on an as-needed basis.

Corporate Governance Report

Dividend Policy

The Company does not have any pre-determined dividend payout ratio. Depending on the financial position of the Company and the Group and the conditions and factors set out in the Dividend Policy, dividends may be proposed and/or declared by the Board in a financial year and any final dividend for the financial year is subject to the Shareholders' approval. Such details are disclosed in the Company's annual report.

Amendments to Constitutional Documents

During the year, the Company did not make any changes to the Articles of Association. An up-to-date version of the Articles is also available on the websites of the Stock Exchange and the Company respectively. Shareholders may refer to the Articles for further details of their rights.

Environmental, Social and Governance Report

Notes to Report Preparation

This report is the second environmental, social and governance report (the "**ESG Report**") issued by Mega Genomics Limited and its subsidiaries ("**Mega Genomics**", the "**Group**", "**we**" or "**us**"). The ESG Report outlines the principles and sustainability philosophy that underpin the Company's corporate social responsibility and summarizes the Company's relationships with key interested parties (or the "**stakeholders**"). The ESG Report aims to inform stakeholders of the Company's environmental, social and governance policies, initiatives and performance beyond financial performance and business operations, and to communicate the vision and commitment to social responsibility.

Basis of Preparation

This report has been prepared in accordance with Appendix C2 – Environmental, Social and Governance Reporting Guide (the "**Guide**") to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and the scope and content of this report are in compliance with the disclosure principles required by the Guide.

The Company has prepared the ESG Report based on the following four reporting principles:

Principles	Our Response
Materiality	The Company's ESG management policy is designed around key areas that are considered to have a material impact on the Company. These key areas are presented in the section headed "Materiality Assessment" of the ESG Report.
Quantitative	Disclosures are made using measurable columns where applicable, and disclosures of key performance are accompanied by an explanation of the calculation methodology and the source of the conversion factors.
Balance	The environmental, social and governance report shall present the issuer's performance in an unbiased manner, avoiding selections, omissions or presentation formats that might improperly influence the decisions or judgments of the report readers.
Consistency	The preparation and statistical methods, the measurement criteria, methodologies, assumptions and/or calculation tools of quantitative data, and the conversion factors used in this report remain the same as those used in previous years, and there are no changes that may affect the meaningful comparison with previous reports.

Period and Scope of Reporting

The reporting period of this report covers the period from 1 January 2023 to 31 December 2023 (the "**Reporting Period**"). The policies and data provided in this report cover all offices and laboratories of Mega Genomics for a comprehensive assessment of the Company's environmental, social and governance performance during the year, with multi-dimensional data indicators taken into account.

Environmental, Social and Governance Report

Language of Reporting

This report is available in traditional Chinese and English versions. In case of ambiguity, the traditional Chinese version shall prevail.

Statement of the Board

Mega Genomics understands the importance of sustainability to business operations. The Board takes full responsibility for the Company's ESG strategy and reporting. As the top ESG governance body of the Company, the Board is responsible for formulating the Company's sustainability management guidelines, strategy and objectives, and establishing and maintaining the ESG risk management and internal control system. The Board is also responsible for reviewing the annual ESG report and overseeing the reporting process. In 2022, the Company has established the Environmental, Social and Governance Committee (the "**ESG Committee**"), which is responsible for assisting the Board in conducting effective governance and oversight of ESG matters, formulating and reviewing ESG-related policies and management measures, and managing the ESG issues and related risks of the Company. The ESG Committee has established an ESG Working Group, which is responsible for collecting data and preparing reports in relation to ESG, and reporting regularly to the ESG Committee.

We attach great importance to the potential impact of ESG-related risks and opportunities and have incorporated them into the Company's risk management system. The ESG Committee is responsible for overseeing the assessment of such risks and opportunities and ensuring that appropriate and effective ESG risk management and internal supervision systems are in place within the Company.

As the report that we published in the previous year was our first report, we did not set any goal, and during the current year, we were unable to review any goal. During the current year, we have established the Company's sustainability strategy and goals for the next year, covering greenhouse gases, waste, energy and water usage. We will regularly review these goals to enhance the Company's environmental performance management.

We also regularly evaluate key ESG issues and submit them to the ESG Committee for review and evaluation, in order to advise our management for improvement of the ESG goal management system. The ESG Committee regularly reviews the ESG goals and reports to the Board. We promise to continuously review the progress of ESG goals in the future and make adjustments or improvements as needed to ensure more effective monitoring and improvement of sustainability-related matters.

This report discloses in detail the progress and results of the Company's ESG work in 2023. There are no false records, misleading statements or material omissions in this report. The Board takes full responsibility for the contents reported in this report. This report has been considered and approved at the Board meeting held on 26 March 2024.

1 About Mega Genomics

1.1 Company Profile

Mega Genomics is a leading genetic testing platform company in China with a focus on consumer genetic testing and cancer screening services. The Company has performed over 19 million genetic tests since our establishment in 2016 and up to 31 December 2023. According to Frost & Sullivan, we were the largest consumer genetic testing platform in China in terms of the cumulative number of tests administered as of 31 December 2021. We were also the largest genetic testing platform for cancer screening in China as measured by the number of tests administered in 2020.

The Company has launched dozens of tests covering a wide range of areas such as nutrition and metabolism, cancer risk assessment, chronic disease susceptibility, cancer screening and infectious disease diagnosis, which will meet the growing consumer demand for preventive medicine. With an advanced integrated technology platform system and market-leading process automation, the Company's high-throughput testing platform has a daily capacity of processing 50,000 samples, being the largest capacity in the industry. Meanwhile, the Company actively explores gene technology's potential application in health management, precision medicine and new drug development. As of 31 December 2023, the Company covered over 1,800 healthcare institutions in more than 340 cities in China. In addition, the Company has established strategic partnerships with several e-commerce and online healthcare platforms to extend our services to more regions and allow more people to better manage their health through genetic testing.

Mega Genomics is committed to unlocking the mysteries of genetics and protecting human health with advanced genetic testing technology and affordable genetic testing services.

1.2 Company Honors

Award Category	Award Level	Award Name	Awarded by	Date of Award
Industry general category	Provincial and municipal level	Zhongguancun High-tech Enterprise (中關村高新技術企業)	Zhongguancun Science Park Management Committee (中關村科技園區管理委員會)	July 2023
Industry general category	Provincial and municipal level	National High-tech Enterprise (國家高新技術企業)	Beijing Municipal Science and Technology Commission (北京市科學技術委員會)	November 2023
Industry general category	Provincial and municipal level	Beijing "Specialization, Expertise, Distinction, Innovation" small and medium-sized enterprise (北京市專精特新中小企業)	Beijing Municipal Bureau of Economy and Information Technology (北京市經濟和信息化局)	December 2023

Environmental, Social and Governance Report

1.3 Sustainability Structure

Mega Genomics adheres to the sustainability strategy, continuously improves and strengthens the Company's ESG management capabilities, clarifies the responsibilities, functions and process mechanisms of relevant work, and strives to improve the quality and effectiveness of ESG work, so as to facilitate the scientific and orderly development of ESG work.

Role	Composition	Major scope of responsibilities
The Board	Members of the Board	<ul style="list-style-type: none">➤ To formulate and oversee ESG management guidelines, strategy and goals;➤ To review the materiality assessment and prioritization of ESG matters;➤ To consider and approve the content of the annual ESG report.
ESG Committee	Senior management personnel in different functions	<ul style="list-style-type: none">➤ To formulate and review ESG-related strategies and management approaches;➤ To monitor ESG issues and related risks;➤ To regularly communicate with other committees to ensure that the relevant committees are up to date on the ESG matters affecting the Company;➤ To regularly communicate with the ESG Working Group to coordinate ESG-related work;➤ To review and evaluate material ESG issues;➤ To regularly approve and review goals and key initiatives.
ESG Working Group	Lower-level personnel in different functional departments	<ul style="list-style-type: none">➤ To formulate and implement ESG-related policies and procedures;➤ To monitor and track progress and initiatives of established goals;➤ To collect ESG-related data and prepare reports;➤ To provide feedback to the ESG Committee.



1.4 Communication with Stakeholders

Mega Genomics regards the expectations of stakeholders as an important consideration in ESG governance and is committed to establishing a harmonious cooperative relationship and communication mechanism with stakeholders. The Company has conducted in-depth analysis on our business characteristics and clearly identifies the stakeholders that have an impact on our operations and development, including shareholders and investors, customers, employees, suppliers, regulators and the general public. We actively build comprehensive, multi-level and normalized communication channels to actively listen to their opinions to safeguard each other's rights and interests and, having comprehensively considering their needs, integrate their feedback into the Company's strategic decisions and management actions, so as to ensure that stakeholders are deeply involved in the Company's development.

Environmental, Social and Governance Report

The category of stakeholders, their expectations and typical communication channels with the Company are as follows:

Key Stakeholders	Expectations and Requirements	Major Communication Channels
Shareholders and investors	<ul style="list-style-type: none"> ➤ Compliant operation ➤ Investment return ➤ Protection of shareholders' rights and interests ➤ Accuracy and timeliness of information disclosure ➤ Anti-corruption initiatives 	<ul style="list-style-type: none"> ➤ Shareholders' meeting ➤ Company annual reports, announcements and other public information ➤ Phone/email inquiries on the Investor Relations section of the official website ➤ Investor conference ➤ Information disclosure of the listed company
Customers	<ul style="list-style-type: none"> ➤ Ensuring product quality and safety ➤ High-quality and efficient services ➤ Protection of customer privacy ➤ Providing professional testing services 	<ul style="list-style-type: none"> ➤ Hotline ➤ Customer service center ➤ Customer satisfaction survey and feedback form ➤ Online service platform
Employees	<ul style="list-style-type: none"> ➤ Compensation and benefits ➤ Career development and opportunities ➤ Safe working environment ➤ Career training ➤ Humanistic care 	<ul style="list-style-type: none"> ➤ Work appraisal ➤ Employee activities ➤ Training, seminar ➤ Employee research ➤ Employee satisfaction survey
Suppliers	<ul style="list-style-type: none"> ➤ Integrity and reciprocity ➤ Supply chain management ➤ Sustainable partnership 	<ul style="list-style-type: none"> ➤ Supplier evaluation system ➤ Site visits ➤ Supplier meetings
Regulators	<ul style="list-style-type: none"> ➤ Compliant operation ➤ Ensuring product quality and safety ➤ Promoting economic development ➤ Promoting the development of gene technology 	<ul style="list-style-type: none"> ➤ Compliance report ➤ Written response to inquiries ➤ Participation in community event
The general public	<ul style="list-style-type: none"> ➤ Employment opportunities ➤ Effective use of resources ➤ Supporting social development ➤ Reducing pollutant emissions ➤ Ecological environment 	<ul style="list-style-type: none"> ➤ Public welfare activities ➤ Participation in seminars/lectures/workshops ➤ Environmental activities

1.5 Materiality Assessment

We communicate with different categories of stakeholders through different channels to understand their opinions and expectations of the Company. This enables us to build long-term and trusting relationships with them and thus determine the scope of this report.

In the previous year, we identified and assessed 19 material issues that have a certain impact on the Company’s long-term operations and sustainability by distributing questionnaires to stakeholders. After careful analysis by the Board and the ESG Committee and assessment of the materiality and relevance of such environmental, social and governance issues to the Company, we have derived the following materiality matrix upon analysis and sorting. During the year, there were no significant changes in our stakeholder groups, business and operating structure as compared to the previous year. As such, the Board and the ESG Committee confirmed that the results of the previous year’s materiality matrix are still applicable to the current year and are still able to respond to the expectations of stakeholders, and therefore will continue to be used for the current year.



Environmental, Social and Governance Report

Environment

1. Energy use
2. Water usage
3. Waste management
4. Greenhouse gas emissions
5. Climate change

Employee

6. Occupational health and safety
7. Career development and opportunities
8. Employee benefits
9. Child labor and forced labor
10. Attracting and retaining talent
11. Employee training

Business

12. Compliant operation
13. Supply chain management
14. Complaint handling
15. Anti-corruption
16. Intellectual property rights
17. Customer data protection

Community

18. Contribution to community
19. Public welfare investment

The Company will continue to improve ESG performance, meet stakeholders' expectations and address business risks to formulate and implement the Company's sustainability strategy. During the Reporting Period, according to the ESG Reporting Guide, we introduced in detail the work details and key performance indicators that are closely relevant and material to the Company's operations. Such contents will be presented in four subject areas, namely "Our Environment", "Our Employees", "Our Business" and "Our Community", which will be integrated with our business development to achieve sustainable operational goals.

2 Our Environment

2.1 Emissions and Waste

2.1.1 Air and greenhouse gas emissions

A summary of the Company's greenhouse gas emissions for the current year and the previous year is as follows:

Greenhouse Gas Emissions		2023		2022	
Scope of greenhouse gas emissions	Emission sources	Emissions <i>(Note 1)</i>	Intensity <i>(Note 2)</i>	Emissions <i>(Note 1)</i>	Intensity <i>(Note 2)</i>
Scope I					
Direct emissions	• Refrigerant	<u>137.35</u>	<u>0.52</u>	<u>214.75</u>	<u>0.71</u>
Scope II					
Indirect emissions from energy use	• Electricity consumption	<u>810.89</u>	<u>3.06</u>	<u>798.67 <i>(Note 3)</i></u>	<u>2.65</u>
Total		<u>948.24</u>	<u>3.58</u>	<u>1,013.42</u>	<u>3.36</u>

Note 1: tCO₂e is a unit of measurement based on the greenhouse effect per ton of carbon dioxide, which is used to measure and compare the greenhouse effect of emissions of different greenhouse gases, including carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), etc. Unit of emissions: tCO₂e

Note 2: Intensity is calculated by dividing total emissions by the average number of employees for the year. Unit of intensity: tCO₂e/employee.

Note 3: In order to facilitate meaningful data comparisons, a unified caliber and factor have been used for calculation, so the electricity consumption and intensity data for 2022 are restated.

During the year, the Company did not have its own vehicles and did not use natural gas. Therefore, no direct greenhouse gas emissions were generated from the consumption of unleaded gasoline and diesel fuel and the consumption of natural gas from its own vehicles. In addition, the emissions from our laboratory were treated to meet the emission standards, and the residual fugitive dust cannot be accurately counted, so it is not included in the above table.

The exhaust gases generated in the operation of our laboratory mainly refer to the organic exhaust gases (in terms of non-methane hydrocarbon) evolved during the process of disinfection of our laboratory area using alcohol. To meet the requirements of the Comprehensive Emission Standards for Air Pollutants (《大氣污染物綜合排放標準》) DB11/501-2017 on the concentration of non-methane hydrocarbon, the interior of our laboratory is a closed fresh air environment, and the exhaust gases are collected by the exhaust gas collection system, and then treated by the glass fiber filter paper and activated carbon adsorption device to meet emission standards. As evaluated by a third-party EIA company, our allowable air pollutant emission concentration is 50 mg/m³ during period II. As shown by the monitoring data of a third-party environmental monitoring company, the highest concentration of the Company's exhaust gas monitoring data in 2023 was 0.36 mg/m³ (2022: 2.56 mg/m³), and the emissions were much lower than the national standards, demonstrating that our exhaust gas control met the target requirements. We will stabilize the existing indicators based on experiments while minimizing emissions.

Environmental, Social and Governance Report

The energy consumed by the Company is mainly purchased electricity, so the environmental impact is mainly from indirect greenhouse gas emissions. During the Reporting Period, the Company's Scope II indirect carbon emissions were 810.89 tons (2022: 798.67 tons), with an intensity of 3.06 tCO₂e/employee.

The Company has set a goal for greenhouse gas emissions, that is, for the year ending 31 December 2024, to maintain the greenhouse gas emission intensity below the 2023 baseline value, i.e. 3.58 tCO₂e/employee.

2.1.2 Hazardous and non-hazardous waste

Type of Waste		2023		2022	
Type of waste	Non-hazardous	Generation ^(Note 4)	Intensity ^(Note 5)	Generation	Intensity ^(Note 5)
Infectious medical waste	Hazardous	57.40	0.22	70.86	0.24

Note 4: Unit of generation: ton.

Note 5: Intensity is calculated by dividing total generation by the average number of employees for the year. Unit of intensity: tCO₂e/employee.

The hazardous waste of the Company is medical waste generated in daily operations. During the Reporting Period, the Company generated 57.40 tons of medical waste, with an intensity of 0.22 tCO₂e/employee.

In order to strengthen the safety management of medical waste, prevent the spread of diseases, protect the environment and safeguard the health of personnel, we have formulated the SOP-016-SYGL-2.0 Management Procedures for Laboratory Medical Waste (《SOP-016-SYGL-2.0實驗室醫療廢棄物管理規程》) on the basis of complying with the requirements of the Law on Prevention and Control of Infectious Diseases (《傳染病防治法》), the Regulations on Medical Waste Management (《醫療廢物管理條例》), the Measures for the Management of Medical Waste in Medical and Health Institutions (《醫療衛生機構醫療廢物管理辦法》) and the Accreditation Criteria for the Quality and Competence of Medical Laboratories (《醫學實驗室質量和能力認可準則》) while taking into account the actual situation of the laboratory. The document defines the responsibilities of EHS engineers and lab technicians and the management procedures for all medical waste in the laboratory, aiming to effectively collect, package, harmlessly treat, temporarily store, hand over and transfer medical waste.

The Company has set a goal for hazardous waste generation, that is, for the year ending 31 December 2024, to maintain the hazardous waste generation intensity below the 2023 baseline value, i.e. 0.22 tCO₂e/employee.

Non-hazardous waste is currently disposed of by the property management company after unified waste classification, which is not counted because of its little impact and small quantity. We will classify waste and recycle various recyclable items. We also promote and encourage the reuse of resources and reduce the use of disposable items, so as to avoid unnecessary waste.

In terms of packaging materials, except for a small number of test kits, the Company's operations basically do not involve the use of packaging materials. Considering that their impact on the environment is minimal, the Company did not collect such data. If, in the future, the Company's operations involve the use of a large amount of packaging materials, the Company will collect detailed information for disclosure.

2.2 Use of Energy and Water Resources

The Company has always attached importance to energy conservation by complying with the regulations set out in the Law of the People's Republic of China on Energy Conservation (《中華人民共和國節約能源法》) in order to protect the environment and improve operational efficiency.

The use of energy and water resources for the current year and the previous year are as follows:

Use of Energy		2023		2022	
Type of energy	Unit	Consumption	Intensity	Consumption ^(Note 6)	Intensity ^(Note 7)
Electricity	MWh	916.98	3.46	903.16	3.00

Use of Water Resources		2023		2022	
Unit		Consumption	Intensity	Consumption	Intensity ^(Note 7)
Water consumption	Ton	280.00	1.06	234.00	0.78

Note 6: In order to facilitate meaningful data comparisons, a unified caliber and factor have been used for calculation, so the electricity consumption and intensity data for 2022 are restated.

Note 7: Intensity is calculated by dividing total consumption by the average number of employees for the year.

The energy consumed in the operation of the Company is mainly electricity. Electricity consumption for the year was 916.98 MWh (2022: 903.16 MWh), with an intensity of 3.46 MWh/employee (2022: 3.00 MWh/employee). The main energy-consuming equipment is the laboratory fresh air system, which has a variable frequency function and can control the power-on time of the equipment according to the Company's actual business volume and experiment time, so that the equipment does not consume electricity excessively. The laboratory temperature is set to 18°C-25°C in winter, and the fresh air system will stop upon reaching the temperature range to save energy. The maintenance service provider also conducts regular equipment checks to ensure proper functionality.

The Company has set a goal for energy consumption, that is, for the year ending 31 December 2024, to maintain the total energy consumption intensity below the 2023 baseline value, i.e. 3.46 MWh/employee.

Environmental, Social and Governance Report

In terms of water consumption, the nature of the Company's business dictates that overall water consumption is low. We use pure water meters for water production experiments and general water resources for cleaning and disinfection. The total water consumption for the year was 280 tons (2022: 234 tons), with an intensity of 1.06 tCO₂e/employee (2022: 0.78 tCO₂e/employee). On this basis, we advocate water conservation for all employees. That means further optimizing our production process to improve the utilization of water resources. Moreover, we conduct management by strictly following the national standards, with our internal assessment standard lower than the national standard limit.

The Company has set a goal for water consumption, that is, for the year ending 31 December 2024, to maintain the total water consumption intensity below the 2023 baseline value, i.e. 1.06 tCO₂e/employee.

The wastewater and effluent include mainly brine and hand washing wastewater during our laboratory testing. Our laboratory is equipped with a wastewater treatment system and experiences daily inspections and monthly monitoring by a third party. This helps monitor and control the effluent from the wastewater treatment facilities and thus ensure that the effluent is controlled in accordance with relevant national or local environmental standards. Also, our wastewater treatment is supervised by external regulators, with water quality testing conducted by the Beijing monitoring station of the national urban drainage monitoring network, and regular inspections conducted by the environmental protection bureau and the municipal health inspection authority regarding the testing. The office water and basic sanitation water are discharged into the municipal sewage network after pre-treatment. The collected sewage meets the level-3 discharge standard of China's Integrated Sewage Discharge Standard (《污水綜合排放標準》). In addition, we have established a system of responsibility for environmental protection within the Company, with a director, executive director, deputy director and committee members responsible for regular inspections and monitoring.

The Company will continue to rationalize laboratory working hours and strengthen the promotion of energy conservation and emission reduction among employees for reducing excess electricity and water consumption.

2.3 The Environment and Natural Resources

We are aware of the importance of environmental protection as an important corporate responsibility. To that end, we will adopt strict environmental protection measures and improve the efficiency of our testing, so as to ensure that we comply with the existing environmental protection laws and regulations.

The main pollutants generated by our testing services include solid waste, wastewater and gas emissions. We have made available the standardized management process for the disposal of hazardous medical waste to ensure that it is stored and transferred after non-hazardous treatment. Non-hazardous waste is uniformly sorted and disposed of by the property management company of the building. In terms of wastewater, the results of a third-party environmental monitoring agency shows that the pH value of our laboratory wastewater ranges from 6 to 9, and the chemical oxygen demand (COD) of our wastewater does not exceed 500 mg/L, which meet the relevant national environmental standards. In terms of gas emissions, we strictly follow the requirements of the Comprehensive Emission Standards for Air Pollutants (《大氣污染物綜合排放標準》) DB11/501-2017 on the concentration of non-methane hydrocarbon. To that end, we have designed our laboratories to be airtight and fresh air environments and modified the existing fresh air ventilation system by adding activated carbon purification devices to the original system, which ensures that the exhaust gases are treated to meet the emission standards. The concentration of emissions after treatment is much lower than the maximum allowable emission concentration, meaning that the emission control meets the target requirements and does not have any material impact on the environment, natural resources and natural ecology.

The Company attaches importance to environmental protection. To that end, the Company implements its environmental protection policies by monitoring the use, storage, processing and disposal of medical waste, closely monitoring the emission of exhaust gases and closely monitoring and controlling the discharge of sewage from sewage treatment facilities on a regular basis. Specifically, such measures include the recycling, proper treatment and effective utilization of resources, which aim to avoid, reduce or control pollution and minimize harmful effects on the environment, and improve the overall efficiency of the Company.

2.4 Climate Change

Climate change has become an urgent global issue, posing far-reaching challenges to business and social development. In order to mitigate such impact, we actively respond to the Paris Agreement to promote practical climate solutions, while constantly practicing innovation to promote the Company's sustainable operations and minimize negative impacts on the environment, thereby contributing to the sustainability of the planet.

As a responsible enterprise, Mega Genomics undertakes to strictly follow the requirements of the Paris Agreement. The Company actively participates in carbon emission reduction plans, proactively follows the global trend of green and low-carbon development, incorporates climate change response into management strategies, and actively pursues carbon-neutral development.

We may face climate-related risks due to extreme weather conditions. In particular, we may suffer significant losses as a result of loss of revenue due to interruptions in testing services and additional expenses for repairing or replacing damaged equipment and machinery, depending on the nature of natural disasters such as typhoons and floods. To address these risks, we have contingency plans in place to minimize our losses and the negative impact on employee safety and our business. We will continue to closely follow the relevant carbon emission policies and other environmental policies and regulations, and will take mitigation measures as and when appropriate.

2.4.1 Climate change risk management

Based on the disclosure recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), the ESG Committee and the ESG Working Group have collaborated to facilitate climate change risk management, covering the identification, assessment and management of risks and opportunities. We have identified physical risks and transition risks. Among which, physical risks include acute and chronic risks, and transition risks include policy and legal, market and reputation risks.

Type of Risks	Climate-related Risk	Description	Potential Impacts	Our Response
Physical risks	Acute risk	Intensification of severity of extreme weather events such as typhoons and floods	Extreme weather may have an impact on the Company's business continuity, as well as the safety of employees and the working environment	The Company pays continuous attention to relevant weather warnings issued by the Meteorological Administration and will promptly notify employees to work from home in case of extreme weather. We will also activate emergency plans and require all employees to evacuate immediately in the event of extreme weather.
	Chronic risk	Rising average temperatures	Rising average temperatures will increase the operating costs of the Company's basic public utilities	The Company pays continuous attention to global warming and improves the laboratory working environment and sample transportation environment. We communicate with the property management company and provide relevant cooling measures for employees' working environment.

Environmental, Social and Governance Report

Type of Risks	Climate-related Risk	Description	Potential Impacts	Our Response
Transition risks	Policy and legal risk	Requirements and supervision for existing products and services	Policies and regulatory requirements to address climate change are becoming increasingly stringent, and catering to policy changes will increase the Company's costs	The Company pays continuous attention to regulatory trends to ensure that the Company's emissions comply with the latest legal requirements.
	Market risk	Changes in customer behavior	Customers are increasingly concerned about the carbon footprint of the value chain and require the entire value chain to contribute to reducing carbon emissions	The Company continuously encourages R&D and innovation, explores green procurement routes and uses green technology to produce green products, so as to maintain core competitiveness with high technology and years of professional capabilities.
	Reputation risk	Stakeholders' increasing concerns about negative feedback	Stakeholders are increasingly concerned about global warming and the resulting climate change impacts, and will raise their expectations for business actions to address such challenge	The Company continuously takes measures to reduce carbon emissions, discloses and publicizes the Company's ESG contributions to the society, and calls for carbon reduction actions.

2.4.2 Environmental protection measures

To respond to the call for energy conservation and emission reduction as well as low-carbon life, the Company strengthens the management of water and electricity by advocating that employees should “save electricity” and “save water”, which reduces the waste of resources and energy consumption. The specific measures are set out as below:

1. There is responsible department for the management of office power supply, requiring employees to turn off lights when leaving, switch off the power supply of drinking water, use electricity reasonably, avoid ever-burning light, and keep off the computer/projector and other office equipment if not in use for reducing energy consumption in standby mode;
2. Use the air conditioners reasonably by setting the temperature not lower than 26°C in summer and turning off all air conditioning equipment at the end of the work day;
3. Whoever applies for the power supply equipment in the public area shall be responsible for it, such as air conditioners and lights in the meeting room, etc. All power supplies should be turned off in a timely manner after use;
4. The employees of the Company should raise the awareness of water conservation and report to the Administration Department immediately if they find any leaks in faucets, water pipes, toilets, etc. The faucet should be turned off as soon as it is not in use to avoid water running all the time;
5. Sort the garbage in the office and recycle it to the maximum extent possible;
6. Conserve paper supplies
 - 1) Prioritize the use of electronic documents and lead a paperless office;
 - 2) Use double-sided printing, and give priority to reusable paper for materials that can be printed on reusable paper;
 - 3) Prioritize printing in black and white and reduce printing in color;
 - 4) Save on office supplies and reuse paper bags, document bags and other paper supplies for each department; request printing paper by department to control the amount; do not place printing paper in public printers; and bring your own paper for printing needs;
7. Environmental control over employee being away on official business
 - 1) Guide low-carbon travel for employees to save water and electricity during travel; use paperless boarding/electronic invoices; and have meals on demand without unnecessary waste;
 - 2) Prefer public transportation and reduce the travel by personal cars.

3 Our Employees

3.1 Employment

At Mega Genomics, we believe that talent development is the core of the Company's steady growth. We have actively cultivated a professional, sophisticated and experienced team and attached great importance to our employees' contribution and career growth. By creating a favorable working environment and offering abundant development opportunities, we are committed to attracting and retaining top talents to ensure the Company's competitiveness and market position. We believe that employees' well-being and development are the cornerstone of corporate success. As such, we not only pay attention to employees' career planning, but also their personal welfare and work-life balance, and are committed to establishing a fair, open and inclusive work culture that allows every employee to discover their own value and jointly promote the Company's long-term development.

3.1.1 Compliant employment

During the Reporting Period, the Company strictly complied with the provisions of the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), the Employment Promotion Law of the People's Republic of China (《中華人民共和國就業促進法》), the Interim Provisions on Payment of Wages (《工資支付暫行規定》), the Regulations on the Administration of Housing Funds (《住房公積金管理條例》), the Law on Mediation and Arbitration of Labor Disputes (《勞動爭議調解仲裁法》), the Regulations on Work-related Injury Insurance (《工傷保險條例》) and other relevant laws and regulations. The Company is committed to effectively protecting the legitimate rights and interests of employees, treats employees of different nationalities, races, ages and genders fairly, and strictly prohibits any form of discrimination in workplaces. Moreover, the Company continues to improve employee benefits to enhance employees' sense of belonging and loyalty.

We recruit our employees mainly through campus job fairs, recruitment agencies and online channels based on the principle of "open recruitment based on merit". We conduct a comprehensive assessment of each candidate to ensure that they have good moral qualities and professional skills that match their positions. The Company identifies talents who have both the ability and virtue.

The Company strictly complies with Article 94 of the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), which stipulates that: "If an employer illegally employs a minor under the age of 16, the labor administrative department shall order correction and impose a fine; in serious cases, the business license shall be revoked by the administrative department for industry and commerce". The Company also strictly abides by the Law of the People's Republic of China on the Protection of Minors (《中華人民共和國未成年人保護法》) and the Regulations on the Prohibition of Child Labor (《禁止使用童工規定》). In order to avoid the use of child labor, the Company specifies in the recruitment conditions that applicants must be at least 18 years old. During the recruitment process, applicants are required to present their identification documents for verification, and thus to ensure that they meet the minimum working age requirements. When a new employee joins the Company, the Human Resources Department will sign an employment contract with the employee and require the employee to present documents such as the ID card, proof of education, proof of termination of employment relationship with the previous employer and personal photo when going through the formal employment procedures. Meanwhile, the Human Resources Department will understand the basic information of the employee through background checks so as to ensure that the employee's identity is true and valid. This will help the Company prevent irregularities in employment. In case of violation of any rules, we will immediately investigate such violation and take measures for improvement in accordance with applicable laws and regulations.

During the Reporting Period, the Company had no material violations related to child labor and forced labor (2022: Nil).

3.1.2 Employee activities

During the Reporting Period, we organized a series of activities aimed at enhancing employees' sense of belonging and well-being. In 2023, we conducted an employee satisfaction survey, in which the overall satisfaction rate reached 98.1%. The activities we carried out during the year include but are not limited to:

1. We provided various gifts to our employees on different holidays to celebrate the festive season;
2. The Company provided free medical checkups and free lunches to all employees;
3. From time to time, the Company organized employees from various departments for team-building activities such as tug-of-war competitions and watching patriotic movies to enhance cohesion;
4. The Company provided different levels of online courses and external training to employees who met the requirements for the purpose of improving their professional capabilities;
5. The Company sent anniversary greeting messages to senior employees to express gratitude for their efforts during their employment;
6. The Company regularly organized training visits to Beijing for sales personnel of other places to increase their sense of belonging;
7. The Company regularly organized annual job reviews to recognize outstanding employees and give positive feedback to employees.

3.1.3 Our workforce

As of 31 December 2023, the Company had 229 employees (2022: 301 employees), all of whom were employed on a full-time basis. The breakdown of employees by gender, age, grade and geographical region is shown in the following table:

Category	2023		2022	
Number and percentage of active employees by gender				
Male	91	39.74%	133	44.19%
Female	138	60.26%	168	55.81%
Number and percentage of active employees by age				
Under 30 years old	77	33.62%	94	31.23%
31-40 years old	125	54.59%	165	54.82%
41-50 years old	26	11.35%	41	13.62%
Over 50 years old	1	0.44%	1	0.33%
Number and percentage of active employees by grade				
Senior management	11	4.80%	6	1.99%
Middle management	55	24.02%	61	20.27%
Other staff	163	71.18%	234	77.74%
Number and percentage of active employees by geographical region				
Beijing	213	93.02%	299	99.34%
Shanghai	8	3.49%	2	0.66%
Nanchang	8	3.49%	0	0

3.1.4 Employee turnover

As of 31 December 2023, the Company's employee turnover rate ^(Note 8) was approximately 49% (2022: 45%). During the year, we established a strict sales policy and increased the frequency of employee evaluations. We will enhance the work capability of our employees through systematic training in the subsequent operations, and strengthen the sense of belonging of our employees, thus improving the stability of our team.

Note 8: Calculated by the number of employees who left the Company divided by the average number of employees for the year.

Environmental, Social and Governance Report

The employee turnover rate by gender, age and geographical region for the current year and the previous year is shown in the following table:

Category	2023	2022
Employee turnover rate by gender <i>(Note 9)</i>		
Male	58%	52%
Female	42%	48%
Employee turnover rate by age <i>(Note 9)</i>		
Under 30 years old	51%	29%
31-40 years old	42%	52%
41-50 years old	72%	18%
Over 50 years old	0	1%
Employee turnover rate by geographical region <i>(Note 9)</i>		
Beijing	49%	100%
Shanghai	40%	0
Nanchang	25%	0

Note 9: Calculated by the number of employees in this category divided by the average number of employees in this category for the year.

3.2 Health and Safety

Mega Genomics strictly abides by laws and regulations such as the Fire Prevention Law of the People's Republic of China (《中華人民共和國消防法》), the Occupational Health and Safety Management System (《職業健康安全管理体系》), the Work Injury Recognition Measures (《工傷認定辦法》) and the Regulations on Work-related Injury Insurance (《工傷保險條例》), and has also formulated management regulations such as the Environmental Management System (《環境管理制度》), the Laboratory Staff Health Management System (《實驗室員工健康管理制》), the Management Regulations for Laboratory Personal Protection (《實驗室個人防護規範管理規定》), the Laboratory Fire Safety System (《實驗室防火安全制度》) and the Laboratory Cleaning and Disinfection Management System (《實驗清潔消毒管理制度》). That is how the Company ensures safe working environment in line with national regulations. In addition, the Company has made available the EHS engineers and EHS specialists, who are dedicated to the Company's safety and environmental management on a regular basis. The Company also conducts training on various safety-related regulations.

During the reporting year, the Company organized 36 safety-related training sessions, covering fire safety, laboratory biosafety, personal protection training, emergency drills and hospital infection prevention and control, etc., which enhanced employees' awareness of safety precautions in all respects.

The Company can better protect its employees from occupational hazards by constructing a safety management system, creating a safe and healthy working environment and providing comprehensive safety education to employees.

During the Reporting Period, the Company had no material violations of laws and regulations on health and safety (2022: Nil).

3.2.1 Workplace safety

The Company is committed to providing a safe and healthy working environment for its employees. In order to ensure the safety of the Company's employees, property and physical resources, all employees working in the Company are obliged to comply with the following safety management regulations:

1. Carry out daily safety checks. Specifically, the Administration Department will check the doors, windows, air conditioners, power supply of equipment in public areas and safety doors for closure. At the end of the day, if there are employees working overtime, they should be sure to close/turn off them when leaving the office;
2. Everyone is responsible for the safety of the Company. The safety doors must be closed and the glass doors at the bathroom must be closed while leaving. That is how we avoid outsiders entering the Company;
3. Safety exits, mobile doors and glass doors at the bathroom must be closed while leaving;
4. Relevant departments are required to strengthen the maintenance of flammables and explosives, power supply and transmission and other important equipment. Employees are encouraged to stay calm when an alarm is reported (fire, flood, etc.), report it in a timely manner, and under safe conditions, listen to instructions for rescue. In case of a serious emergency, employees should be evacuated in an orderly manner to ensure personal safety.

The Company has implemented internal policies in accordance with national industry standards, so as to ensure that business activities are conducted in line with the standards required by relevant health and safety laws. To enhance the safety awareness of employees, during the year, the Company actively held fire safety training and personal protection training, which popularized safety precautions in all respects and advocated all employees to maintain workplace and personal safety together.

During the year, there were no fatalities during the Company's operations, and the Company complied in all material respects with applicable national and local laws and regulations regarding health and safety. No material sanctions, penalties, fines or punishment have been imposed on the Company by the relevant PRC authorities for any violation of PRC laws or regulations concerning health and safety. The Company was not involved in any material claims for personal injury or property damage and compensation payable to employees.

Environmental, Social and Governance Report

During the Reporting Period and the past three years, there were no work-related injuries or fatalities, and there were no material violations of laws and regulations on health and safety (2022: Nil).

Indicator	Unit	2023	2022	2021
Number of work-related fatalities	Person	0	0	0
Percentage of work-related fatalities	%	0	0	0
Lost days due to work injury	Day	0	0	0

3.2.2 Employees' physical and mental health

The Company arranges annual medical checkups for employees, carries out various types of employee activities, and specially organizes mental health training for employees, etc. These aim to create a safe, healthy and affable workplace environment for employees, balance their work and life and enhance their sense of well-being.

To ensure that employees are in good physical and mental state, the Company holds staff sports games and organizes various fun sports and mini-competitions to bring employees diversified experiences. These aim to advocate employees to keep the enthusiasm of physical exercise and experience the fun of sports for health.

3.3 Development and Training

We firmly believe that employees are the Company's most valuable resources. We take the view of talent as "treating everyone with 100% respect, providing fair and transparent development space for employees, encouraging dedication, and advocating teamwork". That means that we adhere to humanistic management, and are committed to evaluating and cultivating employees through various training and development programs such as mentorship, especially providing opportunities and pathways for rapid growth for key employees.

In order to achieve this goal, we have formulated the Employee Handbook (《員工手冊》), the Internal Mentorship Policy (《內部導師制政策》) and the Personnel Training Evaluation and Competency Assessment Procedures (《人員培訓考核及能力評估程序》). Among which, the Employee Handbook (《員工手冊》) details a number of plans and strategies for employee development. The Company has also established a comprehensive training system, which not only covers pre-job training, vocational training and technical training, but also includes personal ability improvement and career planning, so as to facilitate the improvement of employees' comprehensive skills and qualities and ensure the efficiency and stability of corporate operations. In addition, the training results and records will be considered in the confirmation upon probation and the promotion evaluation of employees, so as to ensure that employees' efforts and achievements are fairly recognized and rewarded.

In order to help new employees adapt to their work smoothly, we regularly implement new employee training programs. In addition, in order to enhance employees' understanding of their responsibilities and mastery of skills, we regularly arrange company- and department-level online and face-to-face training every quarter. Employees are also encouraged to attend external seminars and workshops to expand their expertise and enhance their capabilities. In order to continuously improve the professional skills of our employees and ensure that they clearly understand and follow the Company's policies and procedures, we provide a series of training and development programs, as well as the opportunity to participate in external training courses.

We have entered into standard contracts and agreements with all employees covering aspects such as confidentiality, intellectual property rights, employment practices, business ethics and non-competition. Such contracts and agreements often contain provisions on inappropriate competition and confidentiality, and shall remain in effect during the employment and after the termination of employees.

3.3.1 Employee training

In 2023, the Company organized training courses covering aspects such as new employee training, occupational health and safety, job technology, management systems, product knowledge and standardized process training. All employees have received training, and the average number of training hours per employee was approximately 11.52 hours ^(Note 10) (2022: 9.25 hours).

In terms of anti-corruption training, during the Reporting Period, the Company arranged anti-corruption training for directors and employees. Both online and offline trainings were provided, with a total training time of 130 hours and a total of 260 people participated. The training reiterated the Company's zero-tolerance towards corruption, bribery and other illegal acts, and also strengthened employees' anti-corruption awareness.

Note 10: Calculated by the total employee training hours divided by the number of employees as at the end of the year.

During the Reporting Period, a total of 2,639 hours (2022: 2,783 hours) of training were recorded, with 1,821 employees (2022: 2,015 employees) altogether participating in the training. Details of the training by gender and grade of employees for the current year and the previous year are as follows:

Category	Number of employees trained	2023		Average training hours completed per employee ^(Note 12)
		Percentage of employees trained ^(Note 11)	Total training hours	
By gender				
Male	113	41%	863	9.48
Female	163	59%	1,776	12.87
By grade				
Senior management	11	4%	18	1.64
Middle management	56	20%	398	7.24
Other staff	209	76%	2,223	13.64

Environmental, Social and Governance Report

Category	Number of employees trained	2022		Average training hours completed per employee ^(Note 12)
		Percentage of employees trained ^(Note 11)	Total training hours	
By gender				
Male	176	49%	885	6.65
Female	186	51%	1,898	11.30
By grade				
Senior management	6	2%	60	10
Middle management	61	17%	804	13.20
Other staff	295	81%	1,919	6.50

Note 11: Calculated by the number of employees trained in this category divided by the total number of employees trained.

Note 12: Calculated by the number of training hours of for this category of employees divided by the number of employees in this category for the year.

3.4 Labor Standards

During recruitment, the Company informs applicants of the relevant information about the position, including job duties, working environment, workplace, occupational health and safety, production safety conditions, remuneration, etc.

The Company has stated in the Labor Contract (《勞動合同》) that the Human Resources Department is responsible for verifying the authenticity of the information provided by the applicant (curriculum vitae, ID card, certificates). In the section headed personnel management system in the Employee Handbook (《員工手冊》), it has stated that job applicants are required to present their valid original ID cards when signing the labor contract. Also, the labor contract and other related employment documents shall be signed on site and may not be signed on behalf, so that the Company will not recruit or employ illegal workers or child labors, or sign labor contracts that are against the true will of the other party.

The Company makes reasonable arrangements for employees' working hours within the statutory standard (which are stated in the attendance system in the Employee Handbook (《員工手冊》)), and grants paid holidays and leave benefits such as sick leave in accordance with the labor law. For overtime work arranged by the Company, employees are given certain transportation allowance, shift break or overtime pay as specified by the Human Resources Department in accordance with the relevant national regulations. All forms of forced or compulsory labor are strictly prohibited in the Company.

The Company strictly complies with the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law (《勞動合同法》) and relevant laws and regulations. There was no material non-compliance with the labor standards stipulated in the relevant laws and regulations during the Reporting Period (2022: Nil).

4 Our Business

We strictly comply with all laws and regulations of the place where we operate, and prudently operate our business. Through lean management and standardized corporate governance, we strengthen our internal control mechanism. Being committed to providing genetic testing services to customers based on the latest research findings in life sciences, we aim to safeguard the legitimate rights and interests of the Company and our customers.

Supply chain management and product responsibility are vital to the success of our business. Our efforts in these areas are described in detail in the following paragraphs.

4.1 Supply Chain Management

During the Reporting Period, the Company made transactions with 201 (2022: 127) active suppliers mainly for procuring products and services, such as test kits, sample preservation and management, sampling consumables, swab preservation solutions, etc. Finished products are sourced from qualified suppliers in China, mainly based in Beijing and Shanghai.

The number of all suppliers by geographical region is as follows:

Region	Beijing	Shanghai	Guangdong	Jiangsu	Zhejiang	Others	Total
Number	96	22	20	16	11	36	201

The Company has formulated the Standard Operating Procedures for Supplier Management (《供應商管理標準操作規程》), which has explicitly stipulated that all suppliers are required to comply with the national laws, regulations and rules in their regions. During the supplier selection process, we have further clarified the rights and obligations of both parties and the cooperation conditions of mutual benefit.

We regularly evaluate our suppliers for their quality standards, delivery potential, price level, technical potential and after-sales services. In addition, we randomly check the quality of incoming products from time to time, and constantly carry out market price comparison, so as to maximize the Company's benefit while strictly controlling the quality standard of our products.

During the selection of suppliers, we encourage the use of environmentally friendly products and services and require suppliers to provide data related to environmental protection. We decide whether to select the supplier through the collection, compilation and review of such data and give a veto to suppliers who are unqualified.

Supply chain risks may be triggered by force majeure events such as natural disasters and pandemics, and human factors such as business termination, product quality and supply, changes in market demand, political events, information security, intellectual property rights protection and compliance. In response to these risks, we regularly conduct analysis on business status and processes, risk assessment as well as formulation and implementation of risk response plans.

4.2 Product Responsibility

The Company attaches great importance to product safety and reliability. To that end, the Company strictly complies with relevant national, international and industry standards, including but not limited to the Consumer Protection Law of the People's Republic of China (《中華人民共和國消費者權益保護法》), the Accreditation Standards for Quality and Competence of Medical Laboratories (《醫學實驗室品質和能力認可準則》) (ISO15189:2012), the Administrative Regulations on Medical Institutions (Order No. 35 of the Ministry of Health of the People's Republic of China) (《醫療機構管理條例 (中華人民共和國衛生部第35號令)》), the Administrative Measures for Quality Supervision of Use of Medical Devices (2016) (Order No. 18 of the State Food and Drug Administration) (《2016醫療器械使用品質監督管理辦法 (國家食品藥品監督管理總局令第18號)》) and the Requirements for the Application of Accreditation Standard for Quality and Competence of Medical Laboratories (2021) (《2021醫學實驗室品質和能力認可準則的應用要求》).

In order to further standardize the procedures in relation to the production, storage and delivery of products, the Company has also established procedural documents such as the Service Agreement Review Procedures (《服務協議評審程序》), the External Service and Supply Management Procedures (《外部服務與供應管理程序》), the Reagents and Consumables Management Procedures (《試劑和耗材管理程序》), the Quality Supervision and Management Procedures (《質量監督管理程序》) and the Adverse Event Reporting Procedures (《不良事件報告程序》). That is how the Company effectively guarantees product quality and safety through diversified product inspection measures.

During the Reporting Period, the Company did not violate any of the above-mentioned laws and regulations that had a significant impact on the Company and was not subject to any penalties (2022: Nil). At the same time, due to the business nature of the Company, we have no products that need to be recalled for safety and health reasons (2022: Nil).

Due to the nature of our business, the Company does not involve advertising or labeling.

4.2.1 Quality control

Quality is life. Mega Genomics understands that product quality is the cornerstone of gaining a foothold in the industry and determines the reputation and position of the Company in the hearts of customers, which is also the foundation for long-term development of the Company. Mega Genomics adheres to the concept of excellence in quality by building a comprehensive quality management system. In addition to the medical institution practice permit, the Company has also obtained the accreditation certificate for compliance with ISO15189:2012 from the China National Accreditation Service for Conformity Assessment (CNAS).

Today, in the 21st century when products and technologies in various industries are experiencing rapid changes, the speed of development is a benchmark to measure the status of enterprises in the industry and determine whether they keep pace with the times. As a member of the medical industry, the Company's timely issuance of a test report sometimes concerns the health and even the life of the patient. The ability to respond to the needs of doctors and patients in a timely manner is a sign that highlights the faith of the Company.

4.2.2 Complaint handling

The Company handles complaints from customers adhering to the “prevention-oriented” philosophy. We have formulated the Gene Complaint Handling Procedures (《基因投訴處理流程》), the HPV Complaint Handling Procedures (《HPV投訴處理流程》) and the Major Complaint Handling Procedures (《重大投訴處理流程》), etc., and manage customer complaints strictly following these procedures.

The Company has established a sound customer complaint handling mechanism. Customers can submit their opinions through telephone consultation and online information communication. During the Reporting Period, we tested a total of 3.14 million (2022: 4.47 million) samples and received 35 (2022: 37) complaints, indicating an extremely low customer complaint rate. We have internal training for our staff of the 400 hotline and after-sales department on the complaint procedures. When we receive a complaint, our staff will record the customer’s feedback, analyze and review the customer’s complaint, and strive to solve the problem properly for better services.

The Company regularly reviews and examines customer complaints, analyzes customer complaints in a hierarchical and categorical manner, and focuses on key issues. We analyze such information and then reform common problems and solve individual problems separately. We comprehend and solve the complaint information through communication in a timely manner. To be specific, we identify the key links of the problem and the direct responsible person, and propose solutions to solve the problem as fast as possible. Meanwhile, we make summarization in a timely manner, review the problem and notify the members in the group. Moreover, we regularly organize online meetings to summarize and discuss the problems encountered and give tips to other regions. We actively give feedback and solve the abnormalities in order to dispel customers’ concerns in a timely manner.

For matters in relation to our laboratory, we regularly arrange training for laboratory professionals. We also collect market opinions and customer feedback for updating marketing strategies in a timely manner. We reflect on problems with our partners at once based on the complaints and improve and upgrade our projects.

In order to reduce complaints, the Quality Department has strict quality management requirements and conducts checks and verification regularly. While providing services, we build up mutual trust with our customers and maintain close communication with them, so as to avoid misunderstanding and unequal situations. For the complaint information, we identify the key points of the problem and the key causes, so as to optimize the procedures from the source. Regarding the inevitable disadvantages of our products and technology, we express such issues honestly without deception and fraud. On the basis of mutual agreement, both sides can reduce the error rate.

4.3 Data and Privacy Protection

We understand the importance of consumer privacy and take appropriate measures to protect consumer data and personal information in accordance with legal and regulatory requirements and proven industry security standards.

4.3.1 Customer information protection

We provide our privacy policy and user agreement to consumers for their review and consent before offering our services. These documents are also available on our official website to ensure that they are readily accessible to the public.

In order to comply with regulatory requirements under the Personal Information Protection Law (《個人信息保護法》) such as the collection of personal information, our privacy policy provides advance notice and related disclosures in the following areas:

- (i) the types of information we collect, including name, gender, age, mobile phone number and ID number;
- (ii) how we use the information collected from consumers, e.g. identity information about name, gender and age for testing reports, mobile phone numbers for electronic delivery of testing reports to consumers, and ID numbers as required by certain testing services for reporting to the government;
- (iii) how consumers manage their personal information;
- (iv) where and for how long we store the information;
- (v) the measures we take to ensure data security; and
- (vi) the protection of minors.

In addition, we have internal protocols in place to govern confidentiality and privacy matters related to consumer samples and data. We have established standard operating procedures for sample collection/ data collection, testing procedures, data storage and data access. Our information system, Mega Integrated Management System, is divided into various subsystems depending on business processes and functions, such as (i) report viewing appointment; (ii) sample management; and (iii) laboratory management.

We store consumer data in encrypted format and strictly control the personnel who can access personal data. We adopt de-identification techniques and other relevant measures to ensure data privacy and security. In accordance with relevant laws and regulations such as the Administrative Measures for Hierarchical Protection of Information Security (《信息安全等級保護管理辦法》), we formulated a complete set of data security management systems, including but not limited to the Mega Data Security Rules, the System Emergency Response Measures, the Change Management Procedures and the Operation and Maintenance Management Procedures.

4.3.2 Employee information protection

Moreover, we protect the personal data of our employees. When an employee joins us, the Human Resources Department typically collects their personal information, such as ID number, phone number and personal address. The compensation and benefits team of the Human Resources Department is responsible for the management of such information, which cannot be accessed by any other department or personnel outside of the Human Resources Department. The data governance policies mentioned above are also applicable to our employees' personal information.

4.3.3 Privacy data governance

We have established a data governance committee to supervise data privacy and data security matters, and an information security group that is responsible for network security and data security. To ensure data security and further improve our data governance capability, we require our employees to comply with a number of data governance policies and rules when they handle consumer data and other important data.

To comply with the regulatory requirements under the Administrative Measures for Hierarchical Protection of Information Security (《信息安全等級保護管理辦法》), our integrated management system has obtained the Filing Certificate for Information System Security Protection (Level III) (信息系統安全保護等級(三級)備案證明). We regularly conduct data security training and security assessment to strengthen our employees' awareness of data security and privacy protection.

4.4 Intellectual Property Rights

Intellectual property rights are crucial to our business. Our future commercial success depends, in part, on our ability to obtain and maintain patents and other intellectual property rights and proprietary protections for key commercial technologies, inventions and knowhow related to our business, defend and enforce our patents, preserve the confidentiality of our trade secrets, and operate without infringing, misappropriating or otherwise violating the valid and enforceable intellectual property rights of third parties.

As of the end of 2023, three invention patents, two design patents and one utility model patent had been granted to us. We also registered 50 software copyrights and 58 trademarks. We plan to submit more invention patent applications for our self-developed technologies, including various cancer markers, methylation-based multiplex PCR library preparation sequencing technology, and miRNA multiplex qRT-PCR technology. As of the Latest Practicable Date, we self-owned all of our patents as well as patent applications and had no co-owned or co-shared arrangements for our patents and patent applications with third parties.

Environmental, Social and Governance Report

During the Reporting Period, none of our employees breached the confidentiality obligations under their employment contracts in any material respect (2022: Nil); we were not subject to, nor were we a party to, any material intellectual property rights infringement claims or litigations (2022: Nil); and we were not aware of any material infringement of our intellectual property rights that had or could have a material adverse impact on our business (2022: Nil).

During the Reporting Period and up to the Latest Practicable Date, we had complied with all applicable intellectual property rights laws and regulations in all material respects.

4.5 Anti-corruption Initiative

The Company has always complied with relevant anti-corruption and money laundering regulations, including but not limited to the Criminal Law of the People's Republic of China (《中華人民共和國刑法》), the Anti-Unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭法》) and the Anti-Money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》).

The Company is committed to conducting all of its business with integrity and in an ethical business manner. That means complying with all applicable anti-bribery and corruption laws and regulations, policies and systems and strict business ethics standards. Meanwhile, the Company is working more on regulating its production and operation activities, strengthening internal governance and internal controls and improving the guidelines for employee conduct in anti-bribery and corruption. The basic requirements on anti-bribery and corruption are stipulated in the Employee Handbook (《員工手冊》) pursuant to relevant laws and regulations and policies and systems, coupled with the actual situation of the Company. Moreover, all employees are required to sign an Anti-Unfair Competition and Anti-Commercial Bribery Agreement (《反不正當競爭與反商業賄賂協定》) when joining the Company.

The Company is strongly opposed to all forms of bribery and corruption, including any bribery and corruption committed through third parties. The Company has zero tolerance for any violation of applicable anti-bribery and corruption laws and regulations, this policy and the relevant provisions of the Company's anti-bribery and corruption policy and system. The Company encourages employees to provide early feedback on any issues, suggestions or clues of non-compliance regarding bribery and corruption. Such cases are reported when another person offers a bribe to an employee, asks an employee to pay a bribe, asks an employee to cooperate in committing other fraudulent acts, or if an employee knows or believes that there may be any bribery or corruption or any other violation of the anti-bribery and corruption policy, etc. If the Company suffers an economic loss due to such violation, the Company will pursue the compensation responsibility. If a crime is suspected, the Company will transfer the criminal clues to the judicial authorities.

In terms of anti-corruption practice, the Company has established a sound organizational structure orienting to the environment and prevention. To that end, the Company provides correct guidance on value, advocates a corporate culture of integrity and promotes integrity management for improving employees' awareness of integrity and ethical conduct. The Company provides an anti-commercial bribery training to all directors and employees every year.

During the Reporting Period, the Company held anti-corruption and anti-bribery training, which aimed to explain anti-corruption and anti-bribery and provide relevant prevention programs to employees. For details, please refer to the section headed “Development and Training – Employee training” of this ESG report.

During the Reporting Period, we were not involved in any corruption cases (2022: Nil).

5 Our Community

5.1 Community Investment

Mega Genomics is well aware that the development of an enterprise cannot be separated from the support of the government and the community. The Company has always pursued coordinated development with the community and actively assumes social responsibilities. As a member of the society, we are making every effort in fulfilling our obligation to support social development and pay attention to social changes. The Company implements corporate strategies for sustainable development through involvement in the care for employees and employs 3 disabled persons so as to provide them with equal employment opportunities. In the future, we will further develop diversified ways of contribution, actively participate in public welfare undertakings and strive to give back to the society, so as to contribute to the harmonious development of the society.

Directors' Report

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

General Information

The Company was incorporated in the Cayman Islands on 22 April 2021 as an exempted company with limited liability under the Companies Act, and its shares were listed on the Main Board of the Stock Exchange on 22 June 2022.

Principal Activities

The Company is an investment holding company. The Group is principally engaged in consumer genetic testing and cancer screening services in the PRC.

Business Review and Outlook

The business review and outlook of the Group for the year ended 31 December 2023 is set out in the sections headed "Business Review and Outlook" from pages 10 to 18 and "Management Discussion and Analysis" from pages 19 to 29 of this annual report which constitute part of this directors' report.

Financial Highlights

	For the year ended 31 December		
	2023	2022	Year-on-year change
	RMB'000	RMB'000	
Revenue	151,300	145,727	3.8%
Consumer genetic testing services	108,381	80,557	34.5%
Cancer screening services	42,919	65,170	(34.1%)
Gross profit	88,296	81,723	8.0%
			2.3 percentage points
Gross profit margin	58.4%	56.1%	
Net profit/(loss)	30,038	(17,618)	N/A
Net profit/(loss) margin	19.9%	(12.1%)	N/A

Revenue

For the year ended 31 December 2023, our total revenue amounted to RMB151.3 million, representing an increase of RMB5.6 million, or 3.8% or, if excluding the impact of COVID-19 testing services, 16.8%, as compared to RMB145.7 million for the same period in 2022. The revenue generated from consumer genetic testing services and cancer screening services for the year ended 31 December 2023 amounted to RMB108.4 million and RMB42.9 million, respectively. The year-on-year increase in revenue was primarily attributable to the steady year-on-year revenue growth of the Company during the Reporting Period due to the fact that the Company implemented a more aggressive marketing strategy, accelerated the expansion of sales channels, enriched its product matrix and continuously optimized the product structure of genetic testing services.

Gross Profit and Gross Profit Margin

For the year ended 31 December 2023, our consolidated gross profit amounted to RMB88.3 million, representing a year-on-year increase of 8.0%, of which RMB57.3 million and RMB31.0 million of gross profit were attributable to consumer genetic testing services and cancer screening services, respectively. The 64.4% year-on-year increase in gross profit from consumer genetic testing services was driven by the optimization of our product and service portfolio and our ability to effectively control costs.

For the year ended 31 December 2023, our consolidated gross profit margin was 58.4%. For the year ended 31 December 2023, the gross profit margin for our cancer screening services was 72.1%, representing a year-on-year increase of 0.2 percentage point, primarily attributable to our ability to effectively control costs. The gross profit margin for our consumer genetic testing services was 52.9%, which increased by 9.6 percentage points year-on-year, driven by the optimization of our product and service portfolio and our ability to effectively control costs.

Directors' Report

Key Relationships

Relationship with Suppliers

We have maintained stable and long-term relationships with our major suppliers and procure a wide variety of raw materials, mainly reagents and consumables, used for our testing services. We consider several factors in the evaluation and selection of suppliers, including but not limited to the supplier's background, reputation, and industry experience, and most importantly the quality and price of their supplies. All new suppliers must go through our internal supplier admission process before entering into supply agreements with us.

For the year ended 31 December 2023, our purchases from our five largest suppliers in aggregate accounted for 51.3%, and our purchases from our largest supplier accounted for 13.4%, of our total purchases.

None of our Directors, their associates or any of our current Shareholders (who, to the knowledge of our Directors, own more than 5% of the share capital of the Company) had any interest in any of our five largest suppliers that is required to be disclosed under the Listing Rules for the year ended 31 December 2023.

As of the Latest Practicable Date, we had not received any material complaint from our suppliers.

Relationship with Customers

The vast majority of our revenues are generated by providing testing services to health checkup centers and hospitals.

We benefit from a high level of customer loyalty and have developed solid working relationships with many customers. For the year ended 31 December 2023, our five largest customers together generated RMB105.5 million of revenue, accounting for 69.7% of our total revenue, and our largest customer generated RMB87.8 million of revenue, accounting for 58.0% of our total revenue.

As of the Latest Practicable Date, we had not received any material complaint from our customers.

Except for Meinian OneHealth and its subsidiaries; Beijing Meinian Meican Clinics Co., Ltd. ("**Meinian Meican**"); Beijing Meinian Meihe Clinics Co., Ltd. ("**Meinian Meihe**"); and 瀋陽和平奧亞醫院有限公司 (Shenyang Heping Aoya Hospital Co., Ltd.*) ("**Shenyang Heping Aoya**"), other customers who were among our five largest customers were Independent Third Parties during the Reporting Period. Moreover, none of our Directors and their respective close associates, or Shareholders who own 5% or more of the total issued Shares (except for Meinian OneHealth and its subsidiaries and Dr. Yu and his close associates) had an interest in any of our Group's five largest customers during the Reporting Period.

* For identification purpose only

The following tables set forth details about our five largest customers during the Reporting Period.

Customer	Sales Amount RMB'000	% of Revenue %
Meinian OneHealth and its subsidiaries	87,805	58.0%
Meinian Meican (i)	13,269	8.8%
Meinian Meihe (ii)	2,428	1.6%
Shenyang Heping Aoya (iii)	1,066	0.7%
Customer A	938	0.6%
Total	105,506	69.7%

Notes:

- (i) As of 31 December 2023, Dr. Yu owned a minority interest in Meinian Meican through his 70% ownership interest in Yanji (Shanghai) Enterprise Management Co., Ltd. (研計(上海)企業管理有限公司), which in turn owned 42.85% of the equity interests of Meinian Meican.
- (ii) As of 31 December 2023, Dr. Yu owned a minority interest in Meinian Meihe through his 70% ownership interest in Yanji (Shanghai) Enterprise Management Co., Ltd. (研計(上海)企業管理有限公司), which in turn owned 38.09% of the equity interests of Meinian Meihe.
- (iii) As of 13 December 2023, Dr. Yu owned a minority interest in Shenyang Heping Aoya through his 70% ownership interest in Yanji (Shanghai) Enterprise Management Co., Ltd. (研計(上海)企業管理有限公司), which in turn owned 40.39% of the equity interests of Shenyang Heping Aoya.

Since 14 December 2023, Meinian OneHealth owned interest in Shenyang Heping Aoya through its 100% ownership interest in Shanghai Meijian Aoya Health Management Co., Ltd. (上海美健奧亞健康管理有限公司), which in turn owned 94.04% of the equity interests of Shenyang Heping Aoya.

Relationship with Employees

Our success, to a considerable extent, depends upon our ability to attract, motivate and retain a sufficient number of qualified employees. The remuneration package for our employees generally includes salary and bonuses. We determine employee remuneration based on factors such as qualifications and years of experience. Employees also receive welfare benefits, including medical care, retirement benefits, occupational injury insurance and other miscellaneous items. We make contributions to mandatory social security funds for our employees to provide retirement, medical, work-related injury, maternity and unemployment benefits. We also grant restricted share units as stock incentives to eligible participants, details of which are set out in the section headed "RSU Scheme" in this directors' report. In order to motivate the Directors, senior management and employees to contribute to the Company and to attract, motivate and retain talents with skills and experiences, we have adopted a RSU Scheme, details of which are set out in the section headed "RSU Scheme" in this directors' report.

Directors' Report

Environmental Policies and Performance

The Group is committed to fulfilling social responsibility, promoting employee benefits and development, protecting the environment, giving back to the society and achieving sustainable growth. Details of such are set out in the Environmental, Social and Governance Report.

Licences, Regulatory Approvals and Compliance with Laws and Regulations

During the year ended 31 December 2023, there were no material breaches or violations of relevant laws and regulations in China, where the Group has business entities and operations, and the Group obtained all requisite licenses, approvals and permits from relevant authorities in China that are material to the Group's operations. Details of our compliance with relevant laws and regulations will be set out in the Environmental, Social and Governance Report.

Principal Risks and Uncertainties

There are certain principal risks and uncertainties involved in our operations, some of which are beyond our control. Set out below are the principal risks and uncertainties that we face:

- Any factor that may adversely impact our genetic testing services business may adversely impact our overall business operations and operating results, including our ability to market our services, our technology capacities to continuously develop innovative services, and the impact of negative publicity regarding our or our competitors' tests and technologies resulting from defects or errors.
- Our business operations and financial performance have been materially affected by the COVID-19 pandemic, may in the future continue to be affected by the COVID-19 pandemic, and may be affected by other force majeure events, natural disasters, pandemics, outbreak of epidemics, and other unforeseeable catastrophes.
- A significant portion of our revenue was generated from our related parties, who are related to us through Meinian OneHealth or Dr. Yu, and we expect a significant portion of our revenue to continue to be generated from these related parties in the foreseeable future. We may not be able to resolve potential conflicts with such related parties on favorable terms for us.
- We may not be able to expand our business lines to offer innovative testing services and products, or develop and commercialize our new genetic testing services and products on a timely basis, or at all, which may harm our growth opportunities and prospects.

- If we are not able to maintain, grow or diversify our customer base, or maintain or increase the demand for our services and products, our business and prospects could be adversely affected.
- Failure to attract and retain our senior executives and other key employees could adversely affect our business.
- We, or our Shareholders, Directors, senior management, employees, customers, suppliers or partners, may be involved in circumstances that may harm our reputation, or result in substantial cost or diversion of our resources.
- The price of medical devices, reagents and medical consumables could adversely affect our margins and results of operations.
- We may be subject to intellectual property rights infringement or misappropriation claims by third parties, which may force us to incur substantial legal expenses and, if determined adversely against us, could disrupt our business.
- Changes in China's economic, political, and social conditions could adversely affect our business, financial condition, results of operations, cash flows, and prospects.
- We are subject to complex and evolving laws, regulations and governmental policies regarding privacy and data protection. Actual or alleged failure to comply with privacy and data protection laws, regulations and governmental policies could subject us to significant legal, financial and operational consequences.
- We may be adversely affected by the uncertainties and changes in the regulation of LDTs, and any lack of requisite approvals, permits, registrations or filings in relation to our business may have a material adverse impact on our business, results of operations and prospects.
- The material aspects of the R&D and commercialization of our products are heavily regulated, and are subject to risks associated with uncertainties relating to the Regulation for the Administration of Human Genetic Resources (《人類遺傳資源管理條例》).
- If we are not able to obtain, or experience delays in obtaining, required regulatory approvals for new services and products, we might not be able to commercialize new services and products promptly or at all.
- If our laboratories fail to comply with applicable licensing requirements, or become damaged or inoperable, our ability to perform tests may be jeopardized.
- If the PRC government finds that the agreements that establish the structure for operating our businesses in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of Contractual Arrangements and the relinquishment of our interest in PRC Consolidated Entities.

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

Directors' Report

Subsequent Event

Particulars of important events affecting the Group that have occurred for the year ended 31 December 2023 are stated in note 35 to the consolidated financial statements in this annual report.

Financial Statements

The results of the Group for the year ended 31 December 2023 and the Group's financial position as at that date are set out in the consolidated financial statements from pages 128 to 202 of this annual report.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 8 of this annual report. This summary does not form part of the audited consolidated financial statements.

Final Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 December 2023.

Distributable Reserves

As of 31 December 2023, the Company's distributable reserves as calculated under the Companies Act amounted to approximately RMB377.9 million (as of 31 December 2022: RMB386.5 million).

Reserves

Changes to the reserves of the Group during the year ended 31 December 2023 are set out in the consolidated statement of changes in equity in this annual report.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2023 are set out in note 13 to the consolidated financial statements in this annual report.

Share Capital

Details of movements in the share capital of the Group during the year ended 31 December 2023 are set out in note 26 to the consolidated financial statements in this annual report.

Bank Borrowings and Other Loans

Details of bank borrowings and loans of the Group during the year ended 31 December 2023 are set out in note 23 to the consolidated financial statements in this annual report.

Charge on Assets

As of 31 December 2023, we pledged certain property, plant and equipment in an amount of approximately RMB34.7 million (2022: nil) to secure bank loans with a balance of RMB22.6 million.

Donation

There was no donation made by the Group during the year ended 31 December 2023.

Purchase, Sale or Redemption of the Company's Listed Securities

For the year ended 31 December 2023, the Company has repurchased a total of 1,464,800 shares of the Company on the Stock Exchange for a total consideration of HK\$11,452,449.2.

Details of the repurchase are set out below:

Month	Total number of shares repurchased	Price per share		Total consideration HK\$
		Highest	Lowest	
		HK\$	HK\$	
October 2023	449,200	7.88	7.75	3,520,045.2
November 2023	795,400	8.13	7.70	6,211,435.4
December 2023	<u>220,200</u>	7.80	7.80	<u>1,720,968.6</u>
Total	<u>1,464,800</u>			<u>11,452,449.2</u>

As of 31 December 2023, the Company has cancelled 1,244,600 shares among the shares repurchased above, and the remaining 220,200 shares repurchased have also been cancelled on 20 March 2024.

The repurchase is to increase the net asset value per share and earnings per share and has been carried out in accordance with the repurchase mandate granted to the Board at the 2023 annual general meeting of the Company.

Save as disclosed above, the Company or its subsidiaries did not purchase, sell or redeem any of the Company's listed securities for the year ended 31 December 2023.

Directors' Report

RSU Scheme

The Board of the Company approved and adopted the RSU Scheme on 19 November 2021. On 29 December 2022, the Company granted to certain eligible participants (the "**Grantee(s)**") of the Company a total of 27,272,000 RSUs pursuant to the RSU Scheme (the "**Grant**"). Please refer to the announcement of the Company dated 29 December 2022 for further details. A summary of the principal terms of the RSU Scheme of the Company is as follows:

Summary of terms

The following is a summary of the principal terms of the RSU Scheme:

(a) Purpose

The purpose of the RSU Scheme is to align the interests of eligible persons with those of our Group through ownership of the shares, dividends and other distributions paid on the shares and/or the increase in value of the shares, and to encourage and retain eligible persons to make contributions to the long-term growth and profits of our Group.

(b) Scope of the participants

Participants of the RSU Scheme include (i) any full-time and part-time employee, director or officer of any member of our Group including (without limitation) executive, non-executive and independent non-executive directors in the employment of or holding office therein; (ii) any person or entity (including but not limited to consultants engaged by our Group to render consulting or advisory services to us) that provides research, development, consultancy and other technical or operational or administrative support to us; and (iii) any other persons including former employees who, in the sole opinion of the RSU Committee, have contributed or will contribute to any member of our Group.

(c) Term

The RSU Scheme shall be valid and effective for the period of ten years commencing on the Listing Date, after which period no further RSUs will be granted. As of 31 December 2023, the remaining term of the RSU Scheme is 8 years and 6 months.

(d) The maximum number of the shares

As disclosed in the Prospectus, on 1 June 2022, the Company allotted and issued 27,272,000 Shares, representing all Shares underlying the RSUs that may be delivered under the RSU Scheme, and representing 11.4% of the total issued share capital of the Company as of the date of Grant. On 29 December 2022, the Company granted RSUs in an aggregate of 27,272,000 Shares, representing 100% of the RSU Mandate, to certain eligible participants.

(e) Individual limit and exercise period

Subject to the Listing Rules, the RSU Scheme does not specify a maximum limit on the interests granted to each participant or the exercise period.

(f) Vesting schedule of RSUs granted

- (1) one third of the RSUs granted will become vested immediately upon the Grant;
- (2) one third of the RSUs granted will become vested on the first anniversary of the date of Grant;
- (3) the remaining one third of the RSUs granted will become vested on the second anniversary of the date of Grant.

(g) Basis for determining the exercise price of RSUs

The consideration (if any) paid by the selected participant to the trustee for accepting the grant of RSUs to that participant shall be determined at the sole discretion of the RSU committee.

Directors' Report

As of 31 December 2023, 27,272,000 RSUs were granted to the Directors and employees of the Company. The exercise price of the RSUs was HK\$9.9 per share, and the grant price was determined with reference to the closing price of HK\$10.5 on the date of Grant of the shares on 29 December 2022. On 28 December 2022, the closing price of the RSUs on the day before the date of Grant and vesting was HK\$13.12. Details of the RSUs granted under the RSU Scheme during the Reporting Period are as follows:

Names of Grantees	Grant date	Number of RSUs					As of 31 December 2023	Vesting period of RSUs	Exercise period of RSUs	Exercise price per share of RSUs (HK\$)
		As of 1 January 2023	Granted during the Reporting Period	Vested during the Reporting Period	Exercised during the Reporting Period	Lapsed/ cancelled during the Reporting Period				
Lin Lin	29 December 2022	13,636,000	-	4,545,333	-	-	13,636,000	29 December 2022 to 29 December 2024 ⁽¹⁾	29 December 2022 to 21 June 2032	9.9
Guo Meiling	29 December 2022	4,545,000	-	1,515,000	-	-	4,545,000	29 December 2022 to 29 December 2024 ⁽¹⁾	29 December 2022 to 21 June 2032	9.9
Huang Yufeng	29 December 2022	500,000	-	166,666	-	-	500,000	29 December 2022 to 29 December 2024 ⁽¹⁾	29 December 2022 to 21 June 2032	9.9
Jiang Jing	29 December 2022	500,000	-	166,666	-	-	500,000	29 December 2022 to 29 December 2024 ⁽¹⁾	29 December 2022 to 21 June 2032	9.9
Other employees of the Group	29 December 2022	8,091,000	-	2,297,000	-	-	8,091,000	29 December 2022 to 29 December 2024 ⁽²⁾	29 December 2022 to 21 June 2032	9.9
Total		27,272,000	-	9,090,665	-	-	27,272,000			

Notes:

1. Each Grantee under the RSU Scheme may vest and exercise RSUs in three tranches as follows:
 - (a) one third of the RSUs granted will become vested immediately upon the date of Grant;
 - (b) one third of the RSUs granted will become vested on the first anniversary of the date of Grant; and
 - (c) the remaining one third of the RSUs granted will become vested on the second anniversary of the date of Grant.
2. Other Grantees of RSUs granted under the RSU Scheme (other employees of the Group) may vest and exercise the RSUs in three tranches as follows:
 - (a) one third of the RSUs granted will become vested immediately upon the date of Grant;
 - (b) one third of the RSUs granted will become vested on the first anniversary of the date of Grant; and
 - (c) the remaining one third of the RSUs granted will become vested on the second anniversary of the date of Grant.
3. During the Reporting Period, no RSUs lapsed and expired and the Group did not cancel any RSUs.
4. The fair value of RSUs granted during the Reporting Period and the accounting standards and policies adopted are set out in note 27 to the financial statements.
5. Save as disclosed above, there is no other information that is required to be disclosed pursuant to Rule 17.07 of the Listing Rules.

The Scheme Rules of the 2022 RSU Scheme has stipulated the lapse and cancellation of the RSU Scheme under different circumstances, and for the purpose of adequately protecting the interests of the Company, the Remuneration Committee of the Company considers that the Grantees are not required to achieve specific performance targets for exercising the RSUs.

As at 31 December 2022 and 31 December 2023, the number of RSUs available for grant is 0 as the Company has granted all RSUs. Afterwards, no RSUs will be granted under the RSU Scheme.

Directors

The Directors during the year ended 31 December 2023 and up to the date of this annual report were:

Name	Position/Title
Dr. Yu Rong	Executive Director and honorary co-chairperson
Ms. Guo Meiling	Non-executive Director and honorary co-chairperson
Ms. Lin Lin	Executive Director and chairperson
Ms. Jiang Jing	Executive Director and chief financial officer (Assumed the responsibilities of chief executive officer during the vacancy of chief executive officer since 17 January 2024.)
Dr. Zhang Ying	Independent non-executive Director
Mr. Jia Qingfeng	Independent non-executive Director
Dr. Xie Dan	Independent non-executive Director
Mr. Huang Yufeng	Executive Director and chief executive officer (Ceased with effect from 17 January 2024)

Directors' Report

In accordance with the Articles of Association, Ms. Jiang Jing, Mr. Jia Qingfeng, and Dr. Xie Dan will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming AGM.

The biographical details of the Directors and senior management of the Company as at the Latest Practicable Date are set out in the section headed "Directors and Senior Management" in this annual report.

Save as disclosed in the section headed "Directors and Senior Management" in this annual report, there is no information of the Directors which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Directors' Service Contracts and Letters of Appointment

Each of our executive Directors has entered into a service contract with the Company on 1 June 2022. The initial term of their respective service contract shall commence from the date of their appointment until termination in accordance with the terms and conditions of the service agreement or by either party giving to the other not less than one month's prior notice in writing.

Each of the non-executive Directors and independent non-executive Directors has entered into a letter of appointment with the Company effective from 1 June 2022. The initial term for their letters of appointment shall commence from the date of their appointment for a period of three years, whichever is earlier (subject to re-election as and when required under the Articles of Association) until termination in accordance with the terms and conditions of the letter of appointment or by either party giving to the other not less than one month's prior notice in writing.

The service contracts may be renewed in accordance with our Articles of Association and the applicable Listing Rules. None of our Directors has an unexpired service contract with members of our Group that is determinable by our Group within one year without payment of compensation, other than statutory compensation.

Directors' and Controlling Shareholders' Interests in Transactions, Arrangements or Contracts of Significance

Save for the related party transactions as disclosed in note 30 to the consolidated financial statements and the connected transactions as disclosed in the section headed "Connected Transactions" in this directors' report, there were no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director and/or any of his/her connected entity had a material interest, whether directly or indirectly, and there was no transaction, arrangement or contract of significance entered into between the Company or any of its subsidiaries and the Company's Controlling Shareholders or any of its subsidiaries at the end of or at any time during the year ended 31 December 2023.

Interests and Short Positions of Directors and Chief Executives in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As of 31 December 2023, the interests or short positions of the Directors or the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Interests in the Shares or Underlying Shares of the Company

Name of Director	Nature of interest	Number of interested shares	Approximate percentage of shareholding interest (%)
Dr. Yu Rong	Interest in controlled corporations ⁽¹⁾	22,795,135	9.58%
	Interest of a party to an agreement ⁽²⁾	22,000,000	9.24%
Ms. Guo Meiling	Interest in controlled corporations ⁽²⁾	22,000,000	9.24%
	Beneficial interests ⁽³⁾	4,545,000	1.91%
Ms. Lin Lin	Interest in controlled corporations ⁽⁴⁾	9,975,311	4.19%
	Beneficial interests ⁽³⁾	13,636,000	5.73%
Ms. Jiang Jing	Beneficial interests ⁽³⁾	500,000	0.21%
Mr. Huang Yufeng ⁽⁶⁾	Interest in controlled corporations ⁽⁵⁾	3,463,131	1.46%
	Beneficial interests ⁽³⁾	500,000	0.21%

Notes:

- (1) As of 31 December 2023, YURONG TECHNOLOGY LIMITED was held as to 100% by Dr. Yu Rong. Tianjin Hongzhi Kangjian Management Consulting Partnership (LP) was held as to (i) 99% by Zhuhai Zhongwei Yi Jian Equity Investment Fund (Limited Partnership) (珠海中衛易健股權投資基金(有限合夥)), its limited partner, the general partner of which was Shanghai Zhongfu Equity Investment Management Co., Ltd. (上海中孵創業投資管理有限公司), which was ultimately controlled by Dr. Yu Rong; and (ii) 1% by Shanghai Zhongfu Equity Investment Management Co., Ltd. (上海中孵創業投資管理有限公司) as its general partner. As such, Dr. Yu Rong is deemed to be interested in the Shares held by each of YURONG TECHNOLOGY LIMITED and Tianjin Hongzhi Kangjian Management Consulting Partnership (LP) under the SFO.

Directors' Report

- (2) As of 31 December 2023, Infinite Galaxy Health Limited was wholly owned by Ms. Guo Meiling. As such, Ms. Guo Meiling is deemed to be interested in the Shares in which Infinite Galaxy Health Limited is interested under the SFO. On 11 August 2021, Dr. Yu Rong, Ms. Guo Meiling and Infinite Galaxy Health Limited, among others, entered into a voting rights entrustment deed, pursuant to which Infinite Galaxy Health Limited, a Shareholder wholly owned by Ms. Guo Meiling, irrevocably entrusts Dr. Yu Rong to exercise all voting rights associated with the Shares on behalf of Infinite Galaxy Health Limited. As such, Dr. Yu Rong is deemed to be interested in the Shares in which Ms. Guo Meiling is ultimately interested (through holding 100% interests of Infinite Galaxy Health Limited) under the SFO.
- (3) As of 31 December 2023, among the RSUs, 19,181,000 RSUs have been granted to certain Directors, with details as follows:
- 13,636,000 RSUs have been granted to Ms. Lin Lin.
- 4,545,000 RSUs have been granted to Ms. Guo Meiling.
- 500,000 RSUs have been granted to Mr. Huang Yufeng.
- 500,000 RSUs have been granted to Ms. Jiang Jing.
- (4) As of 31 December 2023, LINLIN DJK HOLDING LTD. was wholly owned by Ms. Lin Lin. As such, Ms. Lin Lin is deemed to be interested in the Shares held by LINLIN DJK HOLDING LTD. under the SFO.
- (5) As of 31 December 2023, Main Sunflower Technology Limited was held as to 54.84% by Mr. Huang Yufeng. As such, Mr. Huang Yufeng is deemed to be interested in the Shares held by Main Sunflower Technology Limited under the SFO.
- (6) Mr. Huang Yufeng ceased to be a Director since 17 January 2024.
- (7) As of 31 December 2023, the number of issued shares of the Company was 237,989,200 shares.

Interests in the Shares or Underlying Shares of the Company's Associated Corporations

Mega Genomics Beijing

Name of Director	Capacity/Nature of interest	Number of shares/ underlying shares	Approximate percentage of shareholding interest (%)
Dr. Yu Rong	Interest in controlled corporations ⁽¹⁾	1,383,000	12.73%
Ms. Guo Meiling	Beneficial interests	1,335,048	12.29%

Note:

- (1) As at 31 December 2023, Dr. Yu Rong controlled Zhuhai Zhongwei Yi Jian Equity Investment Fund (Limited Partnership) and Beijing Yinwei Technology Center (LP). As such, Dr. Yu Rong controls the interests in the entities in which Zhuhai Zhongwei Yi Jian Equity Investment Fund (Limited Partnership) and Beijing Yinwei Technology Center (LP) are interested under the SFO.

Interests and Short Positions of Substantial Shareholders and Other Persons in Shares and Underlying Shares of the Company

As at 31 December 2023, to the knowledge of our Directors, the following persons/entities (other than the Directors or chief executive of the Company) had an interest or short position in Shares or underlying Shares which will be required to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and kept in the register in shares under section 336 of the SFO:

Name	Nature of interest	Number of interested shares	Approximate percentage of shareholding interest (%)
Mei Nian Investment Limited	Beneficial owner ⁽¹⁾	37,258,932	15.66%
Meinian OneHealth	Interest in controlled corporations ⁽¹⁾	37,258,932	15.66%
Mega Marvelous Limited	Nominee of another person ⁽²⁾	27,272,000	11.46%
KASTLE LIMITED	Trustee ⁽²⁾	27,272,000	11.46%
YURONG TECHNOLOGY LIMITED	Beneficial owner ⁽³⁾	14,555,731	6.12%
Infinite Galaxy Health Limited	Beneficial owner ⁽⁴⁾	22,000,000	9.24%
Tianjin Shiji Yuneng Enterprise Management Partnership (LP)	Beneficial owner ⁽⁵⁾	12,096,203	5.08%
Beijing Hehe Hengye Technology Co., Ltd.	Interest in controlled corporations ⁽⁵⁾	12,096,203	5.08%
Beijing Shiji Yuneng Technology Co., Ltd.	Interest in controlled corporations ⁽⁵⁾	12,096,203	5.08%
Mr. Niu Zhencai	Interest in controlled corporations ⁽⁵⁾	12,096,203	5.08%

Notes:

- (1) As at 31 December 2023, Mei Nian Investment Limited was held as to 100% by Meinian OneHealth. As such, Meinian OneHealth is deemed to be interested in those which Mei Nian Investment Limited is interested under the SFO.
- (2) As at 31 December 2023, Mega Marvelous Limited was held as to 100% by KASTLE LIMITED, an independent trustee appointed under the terms of the RSU Scheme which, through Mega Marvelous Limited, holds the Shares underlying the RSUs for the benefit of eligible participants of the RSU Scheme.
- (3) As at 31 December 2023, YURONG TECHNOLOGY LIMITED was held as to 100% by Dr. Yu Rong. Tianjin Hongzhi Kangjian Management Consulting Partnership (LP) was held as to (i) 99% by Zhuhai Zhongwei Yi Jian Equity Investment Fund (Limited Partnership) (珠海中衛易健股權投資基金(有限合夥)), its limited partner, the general partner of which was Shanghai Zhongfu Equity Investment Management Co., Ltd. (上海中鵬創業投資管理有限公司), which was ultimately controlled by Dr. Yu Rong and (ii) 1% by Shanghai Zhongfu Equity Investment Management Co., Ltd. (上海中鵬創業投資管理有限公司) as its general partner. As such, Dr. Yu Rong is deemed to be interested in those which each of YURONG TECHNOLOGY LIMITED and Tianjin Hongzhi Kangjian Management Consulting Partnership (LP) is interested under the SFO.
- (4) As at 31 December 2023, Infinite Galaxy Health Limited was wholly owned by Ms. Guo Meiling. As such, Ms. Guo Meiling is deemed to be interested in those which Infinite Galaxy Health Limited is interested under the SFO. On 11 August 2021, Dr. Yu Rong, Ms. Guo Meiling, Ms. Guo Meiling's son and Infinite Galaxy Health Limited entered into a voting rights entrustment deed, pursuant to which Infinite Galaxy Health Limited, a Shareholder wholly owned by Ms. Guo Meiling, irrevocably entrusts Dr. Yu Rong to exercise all voting rights associated with the Shares on behalf of Infinite Galaxy Health Limited. As such, Dr. Yu Rong is deemed to be interested in those which Ms. Guo Meiling is interested under the SFO.

Directors' Report

- (5) As at 31 December 2023, Tianjin Shiji Yuneng Enterprise Management Partnership (LP) was held as to (i) 99.90% by Beijing Hehe Hengye Technology Co., Ltd. (北京和合恒業科技有限公司), its limited partner; and (ii) 0.10% by Beijing Shiji Yuneng Technology Co., Ltd. (北京世紀宇能科技有限公司), its general partner. Beijing Hehe Hengye Technology Co., Ltd. was a limited liability company held as to 99.88% by Beijing Shiji Yuneng Technology Co., Ltd., which was held as to 99.90% by Niu Zhencai (牛振才) and 0.10% by Qiu Xiaobing (邱效冰), both of whom are Independent Third Parties. As such, each of Beijing Hehe Hengye Technology Co., Ltd., Beijing Shiji Yuneng Technology Co., Ltd. and Niu Zhencai is deemed to be interested in all of the Shares held by Tianjin Shiji Yuneng Enterprise Management Partnership (LP).
- (6) As at 31 December 2023, the number of issued shares of the Company was 237,989,200 shares.

Save as disclosed above, as at 31 December 2023, our Directors are not aware of any person or corporation who has an interest or short position in the Shares and underlying Shares of the Company which would be recorded in the register of the Company required to be kept under Section 336 of the SFO.

Management Contracts

No contracts concerning the operation and management of the whole or any substantial part of the business of the Group were entered into or existed during the year ended 31 December 2023.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Articles of Association, although there are no restrictions against such rights under the laws in the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders of the Company.

Tax Relief and Exemption

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

Remuneration Policy

Our Directors believe that the ability to attract, motivate and retain a sufficient number of qualified employees is of significant importance to the long-term successful development of our Group. The remuneration package for our employees generally includes basic wages, variable wages, bonuses and other staff benefits. We made contributions to mandatory employee benefit plans (including pension, work-related injury benefits, maternity insurance, medical and unemployment benefit plans and housing provident fund). We also granted restricted stock units as share incentives to qualified directors and employees and adopted the share option scheme, details of both schemes are set out under the section headed "RSU Scheme" in this directors' report, to motivate our employees. Our Group has established a remuneration committee to review the policy and structure of the remuneration for our Directors and senior management and make recommendations on the remuneration packages of individual executive Directors and senior management. In general, our Group determines the emolument payable to our Directors based on each Director's time commitment and responsibilities, salaries paid by comparable companies as well as the employment conditions elsewhere in our Group.

Employee Benefits

Particulars of the employee benefits of the Group are set out in notes 2.4, 6 and 8 to the consolidated financial statements.

Pursuant to code provision E.1.5 of the CG Code, the annual remuneration of the senior management by band for the year ended 31 December 2023 is set out below:

Remuneration	Number of senior management
Nil to RMB500,000	6

Public Float

As at the Latest Practicable Date and based on the information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained the public float as required under the Listing Rules as at the date of this annual report.

Rights To Acquire the Company's Securities and Equity-Linked Agreements

Save as disclosed in the section headed "RSU Scheme" in this directors' report, at no time during the year ended 31 December 2023 was the Company, or any of its subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate, nor did the Company enter into any equity-linked agreement.

Directors' and Controlling Shareholders' Interests in Competing Business

Save for their respective interests in the Group, none of the Directors and the Controlling Shareholders was interested in any business which competes or is likely to compete with the businesses of the Group for the year ended 31 December 2023. From time to time our non-executive Directors may serve on the boards of both private and public companies within the broader healthcare industries. However, as these non-executive Directors are neither our controlling shareholders nor members of our executive management team, we do not believe that their interests in such companies as directors would render us incapable of carrying on our business independently from the other companies in which they may hold directorships from time to time.

Directors' Report

Non-competition Undertakings

As disclosed in the Prospectus, the independent non-executive Directors shall review matters related to the enforcement of the deed of non-competition undertakings dated 30 May 2022 (the “**Non-competition Undertakings**”) to ascertain the Controlling Shareholder’s compliance with the Non-competition Undertakings. During the Reporting Period, the independent non-executive Directors have reviewed the matters related to the enforcement of the Non-competition Undertakings and considered that there was no conflict of interests between the Controlling Shareholders and the Company. The Controlling Shareholders have issued the annual statement to the Company stating that they have complied with the provisions of the Non-competition Undertakings.

During the Reporting Period, the Controlling Shareholders have provided the Company with all information necessary for the enforcement of the Company’s rights under the Non-competition Undertakings or all information required by the Company for the review of independent non-executive Directors. The Company has also accessed to the Controlling Shareholders to discuss and obtain such information, in order to enable the Company to consider whether to exercise any of its rights under the deed of Non-competition Undertakings. Dr. Yu has reviewed and provided advices on the contents disclosed in the annual report.

Permitted Indemnity Provision

Pursuant to the Articles of Association, the Directors, auditors and other officers of the Company shall be entitled to be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices. Such provisions were in force throughout the year ended 31 December 2023 and are currently in force.

The Company has arranged for appropriate insurance cover for Directors’ liabilities in respect of legal actions that may be brought against the Directors during the year ended 31 December 2023.

Use of Proceeds from the Global Offering

The Shares were listed on the Main Board of the Stock Exchange on 22 June 2022. A total of 11,961,800 new Shares were issued at HK\$18 each for raising a total of approximately HK\$215.3 million. The net proceeds raised during the Global Offering, net of underwriting commissions and other expenses paid and payable by the Company in connection with the Global Offering, amounted to approximately HK\$153.4 million. Details of the Group’s use of proceeds from the Global Offering as at 31 December 2023 are set out in the section headed “Management Discussion and Analysis – Use of Proceeds from the Global Offering” in this annual report.

Connected Transactions

Overview

During the Reporting Period, the following transactions between our connected persons and our Group will constitute continuing connected transactions under Chapter 14A of the Listing Rules. Details of such continuing connected transactions of the Group during the Reporting Period are set out below.

Relevant Connected Persons

The following entities with whom we have entered into transactions are our connected persons under the Listing Rules:

Connected Person	Connected Relationship
Meinian OneHealth (together with its associates)	One of our Controlling Shareholders
Dr. Yu (together with his associates ⁽¹⁾)	An executive Director and one of our Controlling Shareholders

Non-exempt Continuing Connected Transactions

The following table sets forth a summary of our non-exempt continuing connected transactions:

Transaction	Applicable Listing Rules	Waiver sought	Proposed annual caps (RMB'000,000)		
			for the year ended 31 December 2022	2023	2024
Meinian OneHealth Genetic Testing Service Framework Agreement	14A.34 to 14A.36, 14A.49, 14A.51 to 14A.59, 14A.71 and 14A.81	Waiver from announcement, circular and independent shareholders' approval requirements	130.82	176.60	— ⁽²⁾

Notes:

- As of the Latest Practicable Date, Dr. Yu had 41 associates that cooperated with our Group. Most of Dr. Yu's associates are local health checkup centers and engaged in providing checkup and/or other healthcare services in different regions to customers. Most of Dr. Yu's associates are controlled as to 30% and/or above by Dr. Yu through Shanghai Tianyi Investment (Group) Co., Ltd. (上海天億實業控股集團有限公司) ("Shanghai Tianyi") or Yanji (Shanghai) Enterprise Management Co., Ltd. (研計(上海)企業管理有限公司) and/or Shanghai Zhongfu Equity Investment Management Co., Ltd. (上海中孵創業投資管理有限公司), the general partner of Jiaying Xinwen Ganfu Equity Investment Partnership (L.P.) (嘉興信文淦富股權投資合夥企業(有限合夥)), which are controlled or ultimately controlled by Shanghai Tianyi, a company held as to approximately 93.68% by Dr. Yu. As of the Latest Practicable Date, none of Dr. Yu's associates were associates of Meinian OneHealth.
- The Meinian OneHealth Genetic Testing Service Framework Agreement is effective for a period of three years from 1 January 2021.

Directors' Report

Transaction	Applicable Listing Rules	Waiver sought	Proposed annual caps (RMB'000,000)		
			for the year ended 31 December 2022	2023	2024
Dr. Yu Genetic Testing Service Framework Agreement	14A.34 to 14A.36, 14A.49, 14A.51 to 14A.59, 14A.71 and 14A.81	Waiver from announcement, circular and independent shareholders' approval requirements	33.57	37.32	44.76
Contractual Arrangements	14A.34 to 14A.36, 14A.49, 14A.52, 14A.53 to 14A.59, 14A.71 and 14A.105	Waiver from announcement, circular and independent shareholders' approval requirements	N/A	N/A	N/A

Meinian OneHealth Genetic Testing Service Framework Agreement

Principal terms

On 1 January 2021, Mega Genomics Beijing, for itself and on behalf of its subsidiaries, entered into the genetic testing service framework agreement with Meinian OneHealth, for itself and on behalf of, among others, the associates of Meinian OneHealth (the "**Meinian OneHealth Genetic Testing Service Framework Agreement**"), pursuant to which Mega Genomics Beijing and its subsidiaries agree to provide genetic testing services to Meinian OneHealth and its associates, and Meinian OneHealth and its associates agree to sell genetic testing services provided by our Group to its customers. Meinian OneHealth and its associates shall settle the consideration payable to Mega Genomics Beijing each month based on the actual sales of each service. The Meinian OneHealth Genetic Testing Service Framework Agreement is effective for a period of three years from 1 January 2021 and may be renewed subject to compliance with relevant requirements under the relevant laws, regulations and the Listing Rules.

Pricing policy

The service fee to be charged by our Group will be on normal commercial terms as determined based on arm's length negotiations between the parties with reference to (i) the production cost and gross profit requirements of our Group; (ii) the government prescribed price and the prevailing service fee of a similar service provider in the market; and (iii) the sales to the buyer's end customers. We will ensure the profit margin is comparable to the profit margin of similar services offered by our Group to other Independent Third Parties.

Reasons for and benefits of above transactions

The provision of the genetic testing services under the Meinian OneHealth Genetic Testing Service Framework Agreement reflects our strategy of leveraging Meinian OneHealth's market share to gain direct access to the large consumer pool in China, and to enable the Company to operate and invest at a scale that would allow us to realize further gains in efficiency. Compared with other similar providers, we can provide Meinian OneHealth with a more comprehensive portfolio of genetic testing services at competitive market price. Our Directors are of the view that such arrangement is in the best interest of our Group and our Shareholders as a whole.

Transaction amount for the year

During the Reporting Period, the transaction amount of Meinian OneHealth together with its associates was RMB95.1 million.

Proposed annual cap and basis

The proposed annual caps in respect of the transactions between our Group and Meinian OneHealth together with its associates under the Meinian OneHealth Genetic Testing Service Framework Agreement for the year ended 31 December 2023 are expected to be no more than RMB176.60 million.

The above proposed annual caps are set based on the following factors: (i) the historical transaction amount between our Group and Meinian OneHealth together with its associates during the Reporting Period; (ii) the expected need of Meinian OneHealth together with its associates for the genetic testing services; and (iii) the expected growth of the industry and the expected business growth of our Group and Meinian OneHealth together with its associates in the future.

The proposed annual caps take into consideration (i) the industry average growth rates and (ii) the estimated average revenue growth rates of the consumer genetic testing (including COVID-19 testing) and cancer screening services industries. Specifically, (i) according to Frost & Sullivan, the CAGR for consumer genetic testing industry is approximately 40% from 2020 to 2030; (ii) due to the fact that the COVID-19 pandemic became substantially controlled in China in 2021, our revenue generated from COVID-19 testing has been gradually decreasing and the revenue generated from COVID-19 testing in 2021 has decreased by a significant amount as compared to that of 2020; and (iii) compared to 2020, the revenue generated from cancer screening services has demonstrated a substantial increase in the year of 2021 and has increased to approximately more than double that of 2020. Based on the above factors, the total revenue of 2021 of our Group has increased by approximately 17% as compared to that of 2020.

At the same time, as the Company continues to explore and develop third party channels, the proposed annual caps are calculated based on an estimated comprehensive average growth rate ranging from 20% to 30%.

Directors' Report

Dr. Yu Genetic Testing Service Framework Agreement

Principal terms

On 30 May 2022, the Company, for itself and on behalf of its subsidiaries and/or PRC Consolidated Entities, entered into the genetic testing service framework agreement with Dr. Yu, for himself and on behalf of his associates (the “**Dr. Yu Genetic Testing Service Framework Agreement**”), pursuant to which the Company and its subsidiaries agree to provide genetic testing and related services to Dr. Yu’s associates. The commercial terms under the Dr. Yu Genetic Testing Service Framework Agreement are largely in line with those under the Meinian OneHealth Genetic Testing Service Framework Agreement. The Dr. Yu Genetic Testing Service Framework Agreement is effective for a period of three years from the Listing and may be renewed conditional on the fulfilment of the relevant requirements under the relevant laws, regulations and the Listing Rules.

Pricing policy

The service fee to be charged by our Group will be on normal commercial terms as determined based on arm’s length negotiations between the parties with reference to (i) the production cost and gross profit requirements of our Group; (ii) the government prescribed price and the prevailing service fee of a similar service provider in the market or prevailing market rates; and (iii) the sales to the end customers of Dr. Yu’s associates. We will ensure the profit margin is comparable to the profit margin of similar services offered by our Group to other Independent Third Parties.

Reasons for and benefits of above transactions

Our Company has been providing genetic testing and related services to Dr. Yu’s associates for many years given the good working relationship between the parties. It is crucial to maintain a stable and high-quality provision of our services to the customers with long-term cooperation for our Group’s existing and future operation. Compared with other similar providers, we can provide Dr. Yu’s associates with more comprehensive types of genetic testing services at competitive market price. Our Directors are of the view that such arrangement is in the best interest of our Group and our Shareholders as a whole.

Transaction amount for the year

During the Reporting Period, the transaction amount of Dr. Yu together with its associates was RMB22.6 million.

Proposed annual cap and basis

The proposed annual caps in respect of the transactions under the Dr. Yu Genetic Testing Service Framework Agreement for each of the three years ending 31 December 2022, 31 December 2023 and 31 December 2024 are expected to be no more than RMB33.57 million, RMB37.32 million and RMB44.76 million, respectively.

The above proposed annual caps are set based on the following factors: (i) the historical transaction amount between our Group and Dr. Yu together with his associates during the Reporting Period; (ii) the expected need of Dr. Yu together with his associates for the genetic testing and related services; and (iii) the expected growth of the industry and the expected business growth of our Group and Dr. Yu together with his associates in the future.

The proposed annual caps take into consideration (i) the industry average growth rates and (ii) the estimated income proportion of the consumer genetic testing (including COVID-19 testing) and cancer screening services industries. Specifically, (i) according to Frost & Sullivan, the CAGR for consumer genetic testing industry is approximately 40% from 2020 to 2030; (ii) due to the fact that the COVID-19 pandemic became substantially controlled in China in 2021, our revenue generated from COVID-19 testing has been gradually decreasing and the revenue generated from COVID-19 testing in 2021 has decreased by a significant amount as compared to that of 2020; and (iii) compared to 2020, the revenue generated from cancer screening services has demonstrated a substantial increase in the year of 2021 and has increased to approximately more than double that of 2020. Based on the above factors, the total revenue of 2021 of our Group has increased by approximately 17% as compared to that of 2020.

At the same time, as the Company continues to explore and develop third party channels, the proposed annual caps are calculated based on an estimated comprehensive income growth rate ranging from 20% to 30%.

Listing Rules Implications for the Framework Agreements

As one or more of the applicable percentage ratios for the transactions contemplated under the framework agreements on aggregated basis is more than 5% on an annual basis, the transactions shall be subject to annual review, reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the Meinian OneHealth Genetic Testing Service Framework Agreement expired on 31 December 2023, Mega Genomics Beijing, a subsidiary of the Company, has entered into the 2024 Meinian OneHealth Genetic Testing Service Framework Agreement with Meinian OneHealth on 5 January 2024. To enhance the efficiency of managing connected transactions of the Group, the Company terminated the Dr. Yu Genetic Testing Service Framework Agreement and entered into the 2024 Dr. Yu Genetic Testing Service Framework Agreement with Dr. Yu on 5 January 2024. Please refer to the announcements of the Company dated 5 January 2024 and 11 January 2024 and the circular dated 8 February 2024 for further details.

Contractual Arrangements

As disclosed in the section headed "Contractual Arrangements" in the Prospectus, the Company is engaged in the provision of consumer genetic testing services and cancer screening services, which are classified as foreign investment prohibited businesses under applicable PRC laws, regulations or rules. In order to comply with PRC laws and regulations, and maintain effective control over the Company's genetic testing services, Mega Genomics WFOE entered into the Existing Contractual Arrangements with Mega Genomics Beijing and the Registered Shareholders, whereby Mega Genomics WFOE acquired effective control over the financial and operational management and results of the PRC Consolidated Entities, and became entitled to all the economic benefits derived from the operations of the PRC Consolidated Entities.

If foreign ownership is recognized under applicable PRC laws and regulations, the Group will release and terminate the Contractual Arrangements to the extent practicable and we will hold directly the maximum percentage ownership interest permitted under the applicable PRC laws and regulations.

On 28 September 2022, Mega Genomics Beijing, the New Registered Shareholders and Mega Genomics WFOE entered into the New Contractual Arrangements to reflect the reduction in the Registered Shareholders subsequent to completion of the Capital Reduction Procedures. Save for the identity of the Registered Shareholders, the New Contractual Arrangements are a reproduction of the Existing Contractual Arrangements and on the same terms and conditions as the Existing Contractual Arrangements. Since the Terminated Registered Shareholders ceased to be the shareholders of Mega Genomics Beijing upon completion of the Capital Reduction Procedures, certain agreements in relation to the Terminated Registered Shareholders under the Existing Contractual Arrangements were terminated accordingly. For the avoidance of doubt, the remaining agreements under the Existing Contractual Arrangements remain unchanged, valid and in effect.

Directors' Report

Below sets out the particulars of the New Contractual Arrangements (including the agreements that remain unchanged under the Existing Contractual Arrangements):

No.	New Contractual Arrangements	Details of the New Contractual Arrangements (including the amendments to the Existing Contractual Arrangements)
1	New Exclusive Option Agreement	On 28 September 2022, the New Exclusive Option Agreement was entered into among Mega Genomics Beijing, the New Registered Shareholders and Mega Genomics WFOE, pursuant to which Mega Genomics WFOE was granted an irrevocable and exclusive right to purchase all or any of the equity interest in Mega Genomics Beijing held by the New Registered Shareholders at present or in the future and/or all or any of the assets of Mega Genomics Beijing for a consideration equivalent to the lowest price permitted under PRC laws at the time of purchase.
2	Exclusive Consultancy and Services Agreement	Given that the Terminated Registered Shareholders are not the signing parties to this agreement under the Existing Contractual Arrangements, the Exclusive Consultancy and Services Agreement remains unchanged, valid and in effect.
3	New Equity Pledge Agreement	On 28 September 2022, the New Equity Pledge Agreement was entered into among Mega Genomics Beijing, the New Registered Shareholders and Mega Genomics WFOE, pursuant to which the New Registered Shareholders pledged as first charge all of their respective equity interests in Mega Genomics Beijing to Mega Genomics WFOE as collateral security to secure performance of their obligations and Mega Genomics Beijing's obligations under this agreement, the New Exclusive Option Agreement, the Exclusive Consultancy and Services Agreement, and the Powers of Attorney.
4	Powers of Attorney	Given that the Terminated Registered Shareholders ceased to be the shareholders of Mega Genomics Beijing subsequent to completion of the Capital Reduction Procedures, the relevant Powers of Attorney signed by the Terminated Registered Shareholders under the Existing Contractual Arrangements were terminated accordingly. For the avoidance of doubt, the remaining Powers of Attorney remain unchanged, valid and in effect.
5	Spouse Undertakings	Since all the Terminated Registered Shareholders are entity shareholders and there is no need to obtain spouse undertakings relevant to them, all the Spouse Undertakings remain unchanged, valid and in effect.
6	Undertakings by the Individual Registered Shareholders	Since none of the Terminated Registered Shareholders are the Platform Registered Shareholders whose ultimate beneficial owners need to provide respective undertakings as disclosed in the Prospectus, all the undertakings given by the Individual Registered Shareholders remain unchanged, valid and in effect.

Therefore, the New Contractual Arrangements, having their terms and conditions substantially the same as those of the Existing Contractual Arrangements, are a reproduction of the Existing Contractual Arrangements, save for the identity of the Registered Shareholders. The New Contractual Arrangements were entered into so as to reflect the reduction in the Registered Shareholders subsequent to completion of the Capital Reduction Procedures.

Reasons for and benefits of entering into the New Contractual Arrangements

The reason for entering into the New Contractual Arrangements is to reflect the reduction in the Registered Shareholders upon completion of the Capital Reduction Procedures of Mega Genomics Beijing.

As disclosed in the sections headed "History, Reorganization and Group Structure – Reorganization" and "Financial Information" in the Prospectus, Mega Genomics Beijing commenced a Capital Reduction Procedure and issued a total payment of RMB214.1 million to the Registered Shareholders as a result of the Capital Reduction. The Capital Reduction is conducted for the purpose of facilitating the Reorganization and converting the equity interests in Mega Genomics Beijing into equity interests in the Company. On 1 April 2022, the Registered Shareholders adopted resolutions to authorize the Capital Reduction of Mega Genomics Beijing and the entire balance of RMB214.1 million in prepayments to the Registered Shareholders was settled on the same date. As advised by the Company's PRC Legal Advisor, the Capital Reduction Procedures of Mega Genomics Beijing was deemed substantially completed as of 1 April 2022, subject to routine registration of the capital reduction with the local Administration for Market Regulation, and there are no foreseeable legal impediments to complete the Capital Reduction Procedures.

On 28 September 2022, the Company completed the abovementioned Capital Reduction Procedures as disclosed in the Prospectus. Subsequent to completion of the Capital Reduction Procedures, the Terminated Registered Shareholders, also being the signing parties to certain agreements under the Existing Contractual Arrangements, ceased to be the shareholders of Mega Genomics Beijing. Therefore, the Company entered into the New Contractual Arrangements with the New Registered Shareholders to reflect the reduction in the Registered Shareholders of Mega Genomics Beijing subsequent to completion of the Capital Reduction Procedures.

Information about the Group and parties to the New Contractual Arrangements

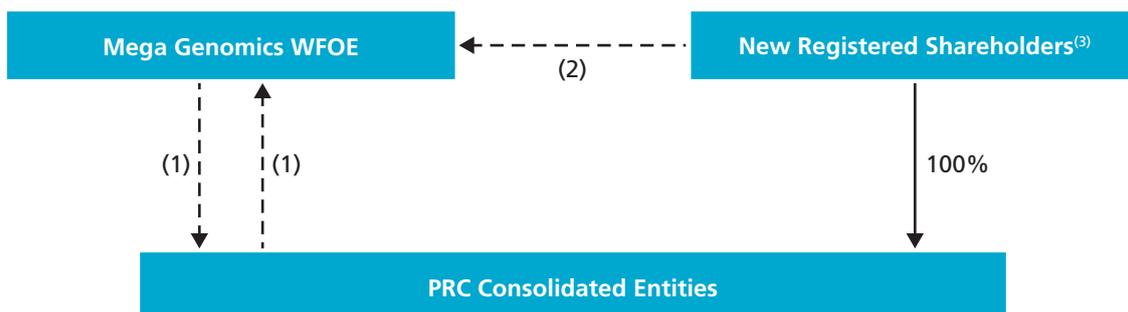
The Group is principally engaged in, through Mega Genomics WFOE, the provision of consumer genetic testing services and cancer screening services. The total revenue attributable to the PRC Consolidated Entities was approximately RMB151.3 million for the year ended 31 December 2023. As at 31 December 2023, the total assets attributable to the PRC Consolidated Entities (before any intercompany eliminations) was approximately RMB703.6 million.

Mega Genomics WFOE refers to Mega (Tianjin) Investment Co., Ltd., which is a limited liability company incorporated under the PRC laws on 24 May 2021 and a wholly-owned subsidiary of the Company.

Mega Genomics Beijing is a limited liability company incorporated under the PRC laws and one of the Company's PRC Consolidated Entities. Mega Genomics Beijing is principally engaged in the provision of consumer genetic testing services and cancer screening services.

Directors' Report

The following sketch illustrates the flow of economic benefits from the PRC Consolidated Entities to the Group as provided for under the Contractual Arrangements:



— denotes legal and beneficial interest in the equity interest

- - - denotes the Contractual Arrangements

Notes:

- (1) Mega Genomics WFOE provides comprehensive business support, technical services and consultancy to the PRC Consolidated Entities.

The PRC Consolidated Entities paid service fees to Mega Genomics WFOE in exchange for the services. See “Contractual Arrangements – Summary of the Contractual Arrangements – Exclusive Consultancy and Services Agreement” in the Prospectus.

- (2) The Registered Shareholders executed an option agreement in favor of Mega Genomics WFOE, for the acquisition of 100% of the equity interests in and/or assets in Mega Genomics Beijing. See “Contractual Arrangements – Summary of the Contractual Arrangements – Exclusive Option Agreement” in the Prospectus.

The Registered Shareholders pledged as first charge all of their respective equity interests in Mega Genomics Beijing to Mega Genomics WFOE as collateral security to secure performance of their obligations and Mega Genomics Beijing’s obligations under the Contractual Arrangements. See “Contractual Arrangements – Summary of the Contractual Arrangements – Equity Pledge Agreement” in the Prospectus.

The Registered Shareholders executed powers of attorney in favor of Mega Genomics WFOE. See “Contractual Arrangements – Summary of the Contractual Arrangements – Powers of Attorney” in the Prospectus.

- (3) The 24 Registered Shareholders of Mega Genomics Beijing include Meinian Onehealth, Beijing Shiji Yuneng Technology Co., Ltd. (北京世紀宇能科技有限公司), Qingdao Damei Xinhe Health Technology Partnership (LP) (青島大美鑫河健康科技合夥企業(有限合夥)), Zhuhai Zhongwei Yijian Equity Investment Fund (LP) (珠海中衛易健股權投資基金(有限合夥)), Tibet Tengyun Investment Management Co., Ltd. (西藏騰雲投資管理有限公司), Maccura Biotechnology Co., Ltd. (邁克生物股份有限公司), Xiamen Fanding Jiayin Equity Investment Partnership (LP) (廈門泛鼎佳因股權投資合夥企業(有限合夥)), Ganzhou Zhangxin Investment Center (LP) (贛州璋信投資中心(有限合夥)), Suzhou Ruihua Investment Partnership (LP) (蘇州瑞華投資合夥企業(有限合夥)), Qingdao Huichuang Qihang Equity Investment Partnership (LP) (青島匯創啟航股權投資合夥企業(有限合夥)), Shanghai Yifangda New Hope Equity Investment Fund (LP) (上海易方達新希望股權投資基金(有限合夥)), Tianjin Hongyin Technology Center (LP) (天津宏因科技中心(有限合夥)) (“**Tianjin Hongyin**”), Tianjin Meihong Technology Center (LP) (天津美宏科技中心(有限合夥)), Tianjin Meizhiyin Technology Center (LP) (天津美之因科技中心(有限合夥)), Beijing Yinwei Technology Center (LP) (北京因衛科技中心(有限合夥)), Ms. Guo Meiling (郭美玲) (“**Ms. Guo**”), Zhang Yajun (張雅軍), Deng Zhenguo (鄧振國), Liu Yi (劉伊), Hu Jianping (胡劍萍), Si Yali (司亞麗), Gong Yudong (宮玉棟), Song Xinbo (宋新波) and Zhou Quan (周全). The New Registered Shareholders are 18 out of 24 Registered Shareholders who remain as the shareholders of Mega Genomics Beijing subsequent to completion of the Capital Reduction Procedures, including Meinian OneHealth, Tianjin Hongyin, Ms. Guo, Tianjin Meihong Technology Center (LP) (天津美宏科技中心(有限合夥)), Beijing Yinwei Technology Center (LP) (北京因衛科技中心(有限合夥)), Beijing Shiji Yuneng Technology Co., Ltd. (北京世紀宇能科技有限公司), Qingdao Damei Xinhe Health Technology Partnership (LP) (青島大美鑫河健康科技合夥企業(有限合夥)), Zhuhai Zhongwei Yijian Equity Investment Fund (LP) (珠海中衛易健股權投資基金(有限合夥)), Maccura Biotechnology Co., Ltd. (邁克生物股份有限公司), Tianjin Meizhiyin Technology Center (LP) (天津美之因科技中心(有限合夥)), Zhang Yajun (張雅軍), Deng Zhenguo (鄧振國), Liu Yi (劉伊), Hu Jianping (胡劍萍), Si Yali (司亞麗), Gong Yudong (宮玉棟), Song Xinbo (宋新波) and Zhou Quan (周全). Among the New Registered Shareholders, Meinian OneHealth and Ms. Guo are the Controlling Shareholders of the Company.

Dispute Resolution under the Contractual Arrangements

Each of the Exclusive Option Agreement, the Exclusive Consultancy and Services Agreement and the Equity Pledge Agreement stipulates that the parties shall negotiate in good faith to resolve the dispute in the event of any dispute with respect to the provisions of such agreements. In the event the parties fail to reach an agreement on the resolution of such a dispute within 15 days, any party may submit the relevant dispute to the China International Economic and Trade Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Beijing, and the language used during arbitration shall be Chinese. The arbitration ruling by three arbitrators shall be final and binding on all parties. Any party shall have the right to apply to courts with competent jurisdiction for enforcement of arbitration rulings. The arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that the arbitral tribunal may award remedies over the shares or assets of the PRC Consolidated Entities or injunctive relief or order the winding up of the PRC Consolidated Entities. Mega Genomics WFOE may apply to the courts of the PRC, Hong Kong, the Cayman Islands (being the place of incorporation of the Company) or other competent jurisdiction for interim remedies or enforcement order of the arbitration rulings.

Risks Relating to the Contractual Arrangements

We consider the following risks to be related to the Contractual Arrangements. For details, please refer to pages 111 to 116 of the section headed "Risk Factors – Risks Associated with Our Contractual Arrangements" in the Prospectus.

- (a) If the PRC government finds that the agreements that establish the structure for operating our businesses in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe consequences, including the nullification of Contractual Arrangements and the relinquishment of our interest in the PRC Consolidated Entities.
- (b) The Contractual Arrangements may not be as effective in providing operational control as direct ownership. The PRC Consolidated Entities or its Registered Shareholders may fail to perform their obligations under the Contractual Arrangements.
- (c) We may lose the ability to use licenses, approvals and assets held by the PRC Consolidated Entities that are material to our business operations if the PRC Consolidated Entities declare bankruptcy or become subject to a dissolution or liquidation proceeding.
- (d) The Registered Shareholders of the PRC Consolidated Entities may have conflicts of interest with us, which may materially and adversely affect our business.
- (e) If we exercise the option to acquire equity ownership and assets of the PRC Consolidated Entities, the ownership or asset transfer may subject us to certain limitations and substantial costs.
- (f) Substantial uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law (《外商投資法》) and how it may impact the viability of our current corporate structure, corporate governance and business operations.
- (g) The Contractual Arrangements may be subject to scrutiny by the PRC tax authorities, and a finding that we owe additional taxes could substantially reduce our consolidated net profit and the value of your investment.

Directors' Report

Mitigation actions taken by us

Our management works closely with our executive Directors and our external legal advisors to monitor the regulatory environment and developments in PRC laws and regulations to mitigate the risks associated with the Contractual Arrangements.

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

- (a) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (b) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (c) the Company will disclose the overall performance of and compliance with the Contractual Arrangements in its annual reports; and
- (d) the Company will engage external legal advisors or other professional advisors, if necessary, to assist our Board with reviewing the implementation of the Contractual Arrangements, and review the legal compliance of the WFOEs and the PRC Consolidated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

The extent to which the Contractual Arrangements relate to requirements other than the foreign ownership restriction

All of the Contractual Arrangements are subject to the restrictions as set out on pages 367 to 370 of the Prospectus.

Listing Rules implications

For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", the PRC Consolidated Entities will be treated as the Company's wholly-owned subsidiary, and its directors, chief executives or substantial shareholders (as defined in the Listing Rules) and their respective associates will be treated as the Company's "connected persons".

Certain transactions contemplated under the Contractual Arrangements are continuing connected transactions of the Company. The highest applicable percentage ratios (other than the profits ratio) under the Listing Rules in respect of the transactions associated with the Contractual Arrangements are expected to be more than 5%. As such, the transactions will be subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Waiver Application

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our legal structure and business operations. Our Directors also believe that our structure, whereby the financial results of our PRC Consolidated Entities are consolidated into our financial statements as if they were the Company's wholly-owned subsidiaries, and all the economic benefits of their business flows to our Group, places our Group in a special position in relation to the connected transactions rules. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing transactions, contracts and agreements to be entered into, among others, by our PRC Consolidated Entities and any member of our Group from time to time (including the PRC Consolidated Entities) will constitute continuing connected transactions under Chapter 14A of the Listing Rules if involving our connected persons, our Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to the Company, for all such transactions to be subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among other things, the announcement and independent shareholders' approval requirements.

Waivers Granted by the Stock Exchange

By virtue of Rule 14A.76(2) of the Listing Rules, the transactions under the Meinian OneHealth Genetic Testing Service Framework Agreement and the Dr. Yu Genetic Testing Service Framework Agreement will constitute continuing connected transactions subject to reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the above non-exempt continuing connected transactions are expected to continue on a recurring and continuing basis, our Directors consider that compliance with the above announcement, circular and independent shareholders' approval requirements would be impractical, would add unnecessary administrative costs to us and would be unduly burdensome to us.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver under Rule 14A.105 of the Listing Rules from compliance with the announcement, circular and independent shareholders' approval requirements in respect of the above non-exempt continuing connected transactions. In addition, we confirm that we will comply with the applicable requirements under Chapter 14A of the Listing Rules (other than those waived by the Stock Exchange).

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

Directors' Report

(a) No change without independent non-executive Directors' approval

No change to the Contractual Arrangements will be made without the approval of the independent non-executive Directors.

(b) No change without independent Shareholders' approval

Save as described in paragraph (d) below, no change to the agreements governing the Contractual Arrangements will be made without the approval of the Company's independent Shareholders.

Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of the Company (as set out in paragraph (e) below) will however continue to be applicable.

(c) Economic benefits flexibility

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by Mega Genomics Beijing through (i) our Group's option, to the extent permitted under PRC laws and regulations, to acquire all of Mega Genomics Beijing's interest, (ii) the business structure under which the net profit generated by Mega Genomics Beijing is substantially retained by our Group, and no annual cap shall be set on the amount of service fees payable to Mega Genomics WFOE by Mega Genomics Beijing under the Exclusive Consultancy and Services Agreement and (iii) our Group's right to control the management and operation of, as well as, in substance, all of the voting rights of Mega Genomics Beijing.

(d) Renewal and reproduction

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between the Company and its subsidiaries in which the Company has direct shareholding, on one hand, and Mega Genomics Beijing, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executives or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however be treated as connected persons of the Company and transactions between these connected persons and the Company other than those under similar Contractual Arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

(e) Ongoing reporting and approvals

Our Group will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:

- The Contractual Arrangements in place during each financial period are disclosed in the Company's annual report in accordance with relevant provisions of the Listing Rules.
- Our independent non-executive Directors review the Contractual Arrangements annually and confirm in the Company's annual report for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by Mega Genomics Beijing to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group, and (iii) the Contractual Arrangements and if any, any new contracts entered into, renewed or reproduced between our Group and Mega Genomics Beijing during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of the Company.
- Our Company's auditors carry out procedures annually on the transactions carried out pursuant to the Contractual Arrangements and provide a letter to our Directors, confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by Mega Genomics Beijing to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.
- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", Mega Genomics Beijing is treated as the Company's wholly-owned subsidiary, and at the same time, the directors, chief executives or substantial shareholders of Mega Genomics Beijing and their respective associates are treated as connected persons of the Company, and transactions between these connected persons and our Group, other than those under the Contractual Arrangements, are subject to the requirements under Chapter 14A of the Listing Rules.
- Mega Genomics Beijing provides our Group's management and the Company's auditors full access to its relevant records for the purpose of the Company's auditors' review of the continuing connected transactions.

Directors' Report

Internal Control Measures

We have adopted the following internal control measures to ensure that proper approvals will be obtained for connected transactions and related party transactions pursuant to the Listing Rules and HKFRS:

- (i) Our Group strictly follows the “separation of power, checks and balances” principle to ensure that proper internal approvals for connected transactions and related party transactions will be duly obtained pursuant to the Listing Rules and HKFRS. Specifically, connected transactions and related party transactions of our Group shall be reviewed and approved according to the below procedures:
 - (a) the relevant business department of our Group is responsible for raising requests in relation to connected transactions or related party transactions based on their business needs. After collecting all the specific transaction information, the relevant business department shall check against the connected person list and/or the related party list of our Group, review whether the relevant transaction constitutes a connected transaction or related party transaction under the Listing Rules or HKFRS, and timely report such transaction and their preliminary assessment thereof to our finance department;
 - (b) our finance department will then review such transaction and the relevant business department’s preliminary assessment, such as the transaction amount, pricing policy, credit terms, payment terms, annual caps, etc., and check whether the preliminary assessment by the relevant business department corresponds with the requirements under the Listing Rules or HKFRS. Our finance department will analyze and determine whether such transaction shall be subject to further reporting, disclosure or approval procedures under the Listing Rules and HKFRS, such as approval by the Board or the general meeting of the Company, to ensure our strict compliance with the approval procedures under the Listing Rules and HKFRS; and
 - (c) our internal control department will conduct a final check and review on all the approval procedures towards such transaction, such as the preliminary assessment by our relevant business department, the review process conducted by our finance department, etc., and make sure the approval process for such transaction complies with our internal policy, our internal control procedures and the requirements under the Listing Rules and HKFRS.
- (ii) Our finance department will also timely check and update the connected person list and the related party list, report to our Board on any updates to such lists, and share the latest lists to all relevant departments in our Group, based on which our relevant business department will be able to timely identify connected transactions and related party transactions, monitor the transaction status and report to our finance department. When our Group enters into a transaction with a new party, our Group will conduct standard background check against the new party, including obtaining the new party’s shareholder(s) profile and the information about its ultimate beneficial owner(s) to identify whether the transaction with the new party constitutes a connected transaction or related party transaction under the Listing Rules or HKFRS, and the connected person list and the related party list will be timely updated and posted to various related departments of our Group.
- (iii) With professional support and assistance continuously provided by our Group’s Hong Kong legal advisors and external independent auditors, our related personnel, relevant departments, management team and Directors are able to be fully aware of any updates on the requirements under the Listing Rules and HKFRS on a timely basis, and our Group is able to duly comply with the requirements under the Listing Rules and HKFRS.

- (iv) Our Directors and external independent auditors will conduct an annual review of the continuing connected transactions and provide annual confirmation to ensure that, in accordance with the Listing Rules, the transactions are conducted in accordance with the terms of the agreements, based on customary commercial terms and in accordance with the pricing and other relevant policies. Our Directors will also review the related party transactions to ensure that such transactions are conducted in accordance with the requirements under HKFRS.

Our independent non-executive Directors reviewed the Contractual Arrangements during the Reporting Period and confirm that (i) the transactions entered into during the year were entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) Mega Genomics Beijing did not make any dividend or other distribution to the holders of its equity interests which was not otherwise subsequently assigned or transferred to the Group, and (iii) the Contractual Arrangements and any new contracts, if any, entered into, renewed or reproduced between the Group and Mega Genomics Beijing during the relevant financial period pursuant to paragraph (d) above were fair and reasonable, or advantageous, so far as the Group was concerned and in the interests of the Company.

Confirmation from Our Directors

During the Reporting Period, the independent non-executive Directors have reviewed and confirmed that (i) the non-exempt continuing connected transactions as set out above have been and will be entered into in the ordinary and usual course of business of the Group and on normal commercial terms or better that are fair and reasonable and in the interests of our Group and our Shareholders as a whole, (ii) the proposed annual caps for these transactions are fair and reasonable and in the interests of the Company, (iii) the Contractual Arrangements are fundamental to our Group's legal structure and business operations and the Contractual Arrangements have been entered into in our ordinary and usual course of business, on normal commercial terms or better and are fair and reasonable and in the interests of the Company; (iv) it followed the pricing policy and guidelines in setting the transaction prices and terms for all the above connected transactions entered into during the Reporting Period, and (v) the terms of the relevant agreements underlying the Contractual Arrangements are justifiable and entered into under normal business practice, for an indefinite duration, to ensure that the financial and operational policies of the PRC Consolidated Entities can be effectively controlled by our Group, that our Group can obtain the economic benefits derived from the PRC Consolidated Entities, and any possible leakages of assets and the value of the PRC Consolidated Entities can be prevented, on an uninterrupted basis.

Confirmation from the Auditor

The auditor of the Group was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its letter to the Board containing its findings and conclusions in respect of the continuing connected transactions as set out above, which stated that:

- a) nothing has come to the attention of the auditor that causes the auditor to believe that the above continuing connected transactions have not been approved by the Board;
- b) for transactions involving the provision of goods or services by the Group, nothing has come to the attention of the auditor that causes the auditor to believe that the above continuing connected transactions were not entered into, in all material respects, in accordance with the pricing policies of the Group;
- c) nothing has come to the attention of the auditor that causes the auditor to believe that the above continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions;
- d) with respect to the aggregate amount of the above continuing connected transactions, nothing has come to the attention of the auditor that causes the auditor to believe that the continuing connected transactions disclosed above have exceeded the annual cap as set by the Company;
- e) with respect to the disclosed continuing connected transactions with Mega Genomics (Beijing) Co., Ltd. and its subsidiaries under the Contractual Arrangements, nothing has come to the attention of the auditor that causes the auditor to believe that dividends or other distributions have been made by Mega Genomics (Beijing) Co., Ltd. and its subsidiaries to the holders of the equity interests of Mega Genomics (Beijing) Co., Ltd. which are not otherwise subsequently assigned or transferred to the Group.

During the year ended 31 December 2023, save as disclosed above, no related party transactions disclosed in note 31 to the consolidated financial statements constituted a connected transaction or continuing connected transaction which should be disclosed pursuant to the Listing Rules. The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions entered into by the Group during the year under review.

Annual General Meeting

The AGM will be held on Friday, 28 June 2024. A notice convening the AGM will be published and dispatched to the Shareholders in the manner required by the Listing Rules in due course.

Closure of Register of Members

For the purpose of ascertaining the members' eligibility to attend and vote at the AGM, the Company's register of members will be closed from Tuesday, 25 June 2024 to Friday, 28 June 2024, both dates inclusive, during which period no transfer of share will be registered. In order to be eligible to attend and vote at the AGM, unregistered shareholders of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Monday, 24 June 2024.

Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report from pages 38 to 56 of this annual report.

Audit Committee

The Audit Committee of the Company has reviewed the accounting principles and policies adopted by the Group and discussed the Group's risk management, internal controls and financial reporting matters with the management. The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2023.

Auditor

The financial statements for the year ended 31 December 2023 have been audited by Ernst & Young who shall retire at the forthcoming AGM and, being eligible, will offer themselves for re-appointment. A resolution will be proposed at the forthcoming AGM to re-appoint Ernst & Young as the auditor of the Company.

Save as otherwise stated, all references above to other sections, reports or notes in this annual report form part of this directors' report.

On behalf of the Board
Mega Genomics Limited
Lin Lin
Chairperson

26 March 2024

Independent auditor's report



Ernst & Young
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

安永會計師事務所
香港鰂魚涌英皇道979號
太古坊一座27樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

Independent auditor's report

To the shareholders of Mega Genomics Limited

(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Mega Genomics Limited (the "Company") and its subsidiaries (the "Group") set out on pages 128 to 202, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

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

Basis for opinion

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

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matters (continued)

Key audit matter

How our audit addressed the key audit matter

Impairment of trade receivables

As at 31 December 2023, the net carrying amount of trade receivables amounted to RMB115,877,000, after netting off a loss allowance for impairment of RMB24,484,000 representing 15% of the Group's total assets.

The impairment of trade receivables is assessed based on the expected credit loss model which requires significant judgements and estimates from management. In assessing the expected credit losses of trade receivables, management considered various factors such as the ageing of the balance, past collection experience, existence of disputes, any other available information concerning the creditworthiness of counterparties, credit loss rates of main customers and forward-looking information.

The Group's disclosures about the impairment of trade receivables are included in notes 2.4, 3 and 17 to the financial statements.

We evaluated the expected credit loss provision methodology used by the Group.

We also evaluated management's assessment on the estimates of customers' current financial positions by reviewing the detailed analyses of the ageing of the receivables, payments received subsequent to year end and past collections, correspondences related to any disputes between the parties involved and information about the credit status of the counterparties.

We examined the disclosed credit loss rates of major customers from public information and compared that with the loss rate of the Group for reasonableness test.

We examined forward-looking adjustments by evaluating the influence related to macroeconomics on the loss rates of the Group's customers.

We checked the mathematical accuracy of the calculations.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the Business Review and Outlook and the Management Discussion and Analysis of the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Chairperson's Report, the Directors' Report, the Corporate Governance Report and the Environmental, Social and Governance Report, which are expected to be made available to us after that date.

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

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

When we read the Chairperson's Report, the Directors' Report, the Corporate Governance Report and the Environmental, Social and Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee.

Independent auditor's report

Responsibilities of the directors for the consolidated financial statements

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong
26 March 2024

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
REVENUE	5	151,300	145,727
Cost of sales		(63,004)	(64,004)
Gross profit		88,296	81,723
Other income and gains	5	13,414	19,221
Selling and distribution expenses		(30,706)	(34,863)
Administrative expenses		(44,503)	(42,929)
Reversal of impairment/(impairment) of financial assets, net		11,579	(25,852)
Other expenses		(779)	(2,483)
Listing expenses		–	(15,516)
Finance costs	7	(1,122)	(719)
PROFIT/(LOSS) BEFORE TAX	6	36,179	(21,418)
Income tax (expense)/credit	10	(6,141)	3,800
PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		30,038	(17,618)
Attributable to:			
Owners of the parent		30,038	(17,618)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	12	RMB0.14	RMB(0.09)

Consolidated Statement of Financial Position

31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	67,399	36,922
Advance payments for property, plant and equipment		–	2,876
Right-of-use assets	14(a)	26,650	9,990
Intangible assets	15	919	834
Financial assets at fair value through profit or loss	19	29,600	30,030
Deferred tax assets	25	4,196	5,967
Total non-current assets		128,764	86,619
CURRENT ASSETS			
Inventories	16	4,409	3,508
Trade receivables	17	115,877	184,823
Prepayments, other receivables and other assets	18	29,203	30,918
Cash and cash equivalents	20	518,289	399,831
Total current assets		667,778	619,080
CURRENT LIABILITIES			
Trade payables	21	39,541	34,757
Other payables and accruals	22	61,065	39,286
Interest-bearing bank and other borrowings	23	1,912	–
Lease liabilities	14(b)	10,616	6,480
Tax payable		597	123
Deferred income	24	600	600
Total current liabilities		114,331	81,246
NET CURRENT ASSETS		553,447	537,834
TOTAL ASSETS LESS CURRENT LIABILITIES		682,211	624,453

Consolidated Statement of Financial Position

31 December 2023

	<i>Notes</i>	2023 RMB'000	2022 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	23	20,723	–
Lease liabilities	14(b)	15,311	4,506
Deferred income	24	1,350	1,950
		<hr/>	<hr/>
Total non-current liabilities		37,384	6,456
		<hr/>	<hr/>
Net assets		644,827	617,997
		<hr/>	<hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	154	155
Treasury shares	26	(1,567)	–
Reserves	28	646,240	617,842
		<hr/>	<hr/>
Total equity		644,827	617,997
		<hr/>	<hr/>

Ms. Lin Lin
Director

Ms. Jiang Jing
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2023

	Attributable to owners of the parent							
	Share capital	Treasury shares	Share premium*	Capital reserve*	Statutory surplus reserve*	Share-based payment*	Retained profits*	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 26)	(note 26)	(note 28)	(note 28)	(note 28)	(note 27)		
At 1 January 2022	129	-	228,688	346,436	6,375	-	112,868	694,496
Loss and total comprehensive income for the year	-	-	-	-	-	-	(17,618)	(17,618)
Issue of shares for the restricted share unit scheme	18	-	-	-	-	(18)	-	-
Issue of shares for the initial public offering	8	-	184,147	-	-	-	-	184,155
Share issue expenses	-	-	(18,342)	-	-	-	-	(18,342)
Share-based payment arrangement (note 27)	-	-	-	-	-	4,946	-	4,946
Capital reduction of a subsidiary	-	-	-	(229,640)	-	-	-	(229,640)
At 31 December 2022 and 1 January 2023	155	-	394,493	116,796	6,375	4,928	95,250	617,997
Profit and total comprehensive income for the year	-	-	-	-	-	-	30,038	30,038
Repurchase of shares (note 26)	-	(10,496)	-	-	-	-	-	(10,496)
Cancellation of treasury shares (note 26)	(1)	8,929	(8,928)	-	-	-	-	-
Share-based payment arrangement (note 27)	-	-	-	-	-	7,288	-	7,288
At 31 December 2023	154	(1,567)	385,565	116,796	6,375	12,216	125,288	644,827

* These reserve accounts comprise the consolidated reserves of RMB646,240,000 (2022: RMB617,842,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2023

	<i>Notes</i>	2023	2022
		RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		36,179	(21,418)
Adjustments for:			
Finance costs	7	1,122	719
Bank interest income		(722)	(1,386)
Depreciation of property, plant and equipment	13	8,256	8,328
Depreciation of right-of-use assets	14(a)	6,709	6,791
Covid-19-related rent concessions from lessors		–	(159)
Amortisation of intangible assets	15	155	159
(Reversal of impairment)/impairment of trade receivables, net	17	(13,975)	25,852
Impairment of other receivables, net	18	2,396	–
Recognition of deferred income	24	(600)	(600)
Foreign exchange differences, net		(1,439)	(11,749)
Investment income from financial assets at fair value through profit or loss		(5,343)	(2,626)
Changes in fair value of financial assets at fair value through profit or loss		430	170
Share-based payment expense	27	7,288	4,946
		40,456	9,027
Decrease/(increase) in trade receivables		82,921	(7,045)
Decrease/(increase) in prepayments, other receivables and other assets		2,319	(899)
Increase in inventories		(901)	(224)
Increase in trade payables		4,784	5,560
Increase/(decrease) in other payables and accruals		37,279	(3,457)
		166,858	2,962
Cash generated from operations		166,858	2,962
Income tax paid		(3,896)	(11,259)
Interest received		722	1,386
		163,684	(6,911)
Net cash flows from/(used in) operating activities		163,684	(6,911)

Consolidated Statement of Cash Flows

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(35,857)	(5,006)
Purchases of intangible assets	15	(240)	(182)
Advance payments for investment to third parties		(21,000)	–
Refund of advance payments for investment to third parties		18,000	–
Purchases of financial assets at fair value through profit or loss		(478,280)	(1,055,920)
Proceeds from disposal of financial assets at fair value through profit or loss		483,623	1,058,546
Net cash flows used in investing activities		<u>(33,754)</u>	<u>(2,562)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		23,560	–
Repayment of bank loans		(925)	–
Principal portion of lease payments		(8,428)	(7,320)
Interest paid		(1,122)	(719)
Payment for capital reduction of a subsidiary		(15,500)	–
Repurchase of shares		(10,496)	–
Proceeds from issue of shares		–	184,155
Share issue expenses		–	(17,657)
Net cash flows (used in)/from financing activities		<u>(12,911)</u>	<u>158,459</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		399,831	239,096
Effect of foreign exchange rate change, net		1,439	11,749
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>518,289</u>	<u>399,831</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	<u>518,289</u>	<u>399,831</u>
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		<u>518,289</u>	<u>399,831</u>

Notes to Financial Statements

31 December 2023

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered address of the Company is Third Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 22 June 2022.

The Company is an investment holding company. During the year, the Company's subsidiaries were principally engaged in the provision of a broad spectrum of genetic testing services.

In the opinion of the directors, the Company does not have an immediate holding company or ultimate holding company. Dr. Yu Rong, Ms. Guo Meiling, and Meinian OneHealth Healthcare Holdings Co., Ltd. together with their respective holding companies, namely, Yurong Technology Limited, Tianjin Hongzhi Kangjian Management Consulting Partnership (LP), Infinite Galaxy Health Limited and Mei Nian Investment Limited are regarded as a group of the controlling shareholders of the Company as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited..

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Mega Genomics Health HongKong Limited	Hong Kong	HK\$100	100	–	Investment holding
Mega (Tianjin) Investment Co., Ltd. ("Mega Genomics WFOE")*	People's Republic of China ("PRC")/ Chinese Mainland	US\$ 100,000,000	–	100	Investment holding
Mega Genomics (Beijing) Co., Ltd. ("Mega Genomics Beijing")**	PRC/Chinese Mainland	RMB 10,867,058	–	100	Provision of consumer genetic testing and cancer screening services
Beijing Mega Medical Test Laboratory Co., Ltd.**	PRC/Chinese Mainland	RMB 10,000,000	–	100	Provision of clinical laboratory medical services
Shanghai Yingce Biotechnology Co., Ltd.**	PRC/Chinese Mainland	RMB 1,000,000	–	100	Research and development and sales of genetic testing products
Jiangxi Mega Health Technology Co., Ltd.**	PRC/Chinese Mainland	RMB 10,000,000	–	100	Provision of genetic testing services
Tianjin Mega Health Technology Co., Ltd.**	PRC/Chinese Mainland	RMB 5,000,000	–	100	Provision of consumer genetic testing and cancer screening services

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

- * This entity is a wholly-foreign-owned enterprise established under PRC law.
- ** These entities are limited liability enterprises established under PRC law and are controlled by the Company through a series of contractual arrangements entered into between Mega Genomics WFOE and these entities (the “Contractual Arrangements”). These entities are collectively referred to as the “PRC Consolidated Entities”.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirement of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2023. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, any non-controlling interest and the exchange fluctuation reserve; and recognises the fair value of any investment retained and any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 17	<i>Insurance Contracts</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

The nature and the impact of the new and revised HKFRSs that are applicable to the Group are described below:

- (a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has disclosed the material accounting policy information in note 2 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.

2. ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.
- (c) Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.
- (d) Amendments to HKAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following revised HKFRSs, that have been issued but are not yet effective, in the financial statements. The Group intends to apply these revised HKFRSs, if applicable, when they become effective.

Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i> ¹
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> (the "2020 Amendments") ^{1,4}
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants</i> (the "2022 Amendments") ^{1,4}
Amendments to HKAS 7 and HKFRS 7	<i>Supplier Finance Arrangements</i> ¹
Amendments to HKAS 21	<i>Lack of Exchangeability</i> ²

¹ Effective for annual periods beginning on or after 1 January 2024

² Effective for annual periods beginning on or after 1 January 2025

³ No mandatory effective date yet determined but available for adoption

⁴ As a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 10 and HKAS 28 address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 was removed by the HKICPA. However, the amendments are available for adoption now.

Amendments to HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of HKFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2. ACCOUNTING POLICIES (continued)

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments shall be applied retrospectively with early application permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 7 and HKFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. Earlier application of the amendments is permitted. The amendments provide certain transition reliefs regarding comparative information, quantitative information as at the beginning of the annual reporting period and interim disclosures. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 21 specify how an entity shall assess whether a currency is exchangeable into another currency and how it shall estimate a spot exchange rate at a measurement date when exchangeability is lacking. The amendments require disclosures of information that enable users of financial statements to understand the impact of a currency not being exchangeable. Earlier application is permitted. When applying the amendments, an entity cannot restate comparative information. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening balance of retained profits or to the cumulative amount of translation differences accumulated in a separate component of equity, where appropriate, at the date of initial application. The amendments are not expected to have any significant impact on the Group's financial statements.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES

Fair value measurement

The Group measures its financial assets at fair value through profit or loss at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting period.

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of the reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Laboratory equipment	9.5% or 19.0%
Other equipment	19.0%
Leasehold improvements	20.0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. It is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Software

Purchased software is stated at cost less any impairment loss and is amortised on the straight-line basis over its estimated useful life of 10 years.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Offices and warehouses	4 to 5 years
------------------------	--------------

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate ("IBR") at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of office premises and staff dormitory (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on the equity investments are also recognised as other income in profit or loss when the right of payment has been established.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statements of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (continued)

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 180 days past due. The Group has rebutted the 90 days past due presumption of default based on reasonable and supportable information, including the Group's credit risk control practices and the historical recovery rate of financial assets over 90 days past due. However, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience and main customers' historical expected default rates, adjusted for forward-looking factors specific to the debtors and the economic environment.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, interest-bearing bank and other borrowings and lease liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (trade and other payables, and other borrowings)

After initial recognition, trade and other payables, and interest-bearing borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the monthly-weighted average method. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and at banks and short-term highly liquid deposits with a maturity of generally within three months that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value and held for the purpose of meeting short-term cash commitments.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and at banks, and short-term deposits as defined above, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of the reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Share-based payments

The Company operates a share award scheme. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments ("equity-settled transactions"). The cost of equity-settled transactions with employees is measured by reference to the fair value of the shares at the date at which they are granted. The fair value is measured at the market value of the shares. Further details are given in note 27 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

The dilutive effect of outstanding shares is reflected as additional share dilution in the computation of earnings per share.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

The Group transfers control of goods or services over time and recognises revenue over time, if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

The Group derives revenue from the rendering of genetic testing services, which include consumer genetic testing services and cancer screening testing services, including the sale of relevant medical materials.

(a) Genetic testing services

Revenue from genetic testing services is recognised at the point in time when the service is provided and accepted by the customer, generally on the delivery of testing reports. Revenue from sale of relevant medical materials is recognised at the point in time when control of the asset is transferred to the customer, generally on receipt of materials by customers.

Other income

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Other employee benefits

Pension schemes

The employees of the Group's subsidiaries which operate in Chinese Mainland are required to participate in central pension schemes operated by the local municipal government and the central government, respectively. These subsidiaries are required to contribute a certain percentage of payroll costs to the central pension schemes. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension schemes.

Borrowing costs

All borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Proposed final dividends are disclosed in the notes to the financial statements. Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements is presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Notes to Financial Statements

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Contractual Arrangements

The PRC Consolidated Entities are engaged in development and application of genes diagnosis and treatment technologies. Under the scope of the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2022 Version), foreign investors are prohibited to invest in such business.

As disclosed in note 2.1 to the financial statements, the Group exercises control over the PRC Consolidated Entities and enjoys substantially all economic benefits of the PRC Consolidated Entities through the Contractual Arrangements.

The Group does not have any equity interests in the PRC Consolidated Entities. However, as a result of the Contractual Arrangements, the Company has power over the PRC Consolidated Entities, has rights to variable returns from its involvement with the PRC Consolidated Entities and has the ability to affect those returns through its power over the PRC Consolidated Entities and is therefore considered to have control over them. Consequently, the Company regards the PRC Consolidated Entities as indirect subsidiaries. The Group has consolidated the financial position and results of the PRC Consolidated Entities in the financial statements during the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on ageing period for groups of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical expected default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical expected default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical expected default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 17 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their services and only has one reportable operating segment. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

Geographical information

During the year, the Group operated within one geographical segment because all of the Group's revenue was generated from customers located in Chinese Mainland. All of the non-current assets of the Group were located in Chinese Mainland.

Information about a major customer

Revenue from a major customer which accounted for 10% or more of the Group's revenue during the year is set out below:

	2023 RMB'000	2022 RMB'000
Customer A	87,805	82,057

Notes to Financial Statements

31 December 2023

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2023 RMB'000	2022 RMB'000
Revenue from contracts with customers	<u>151,300</u>	<u>145,727</u>

Revenue from contracts with customers

(a) Disaggregated revenue information

	2023 RMB'000	2022 RMB'000
Types of goods or services		
Consumer genetic testing services	108,381	80,557
Cancer screening testing services	<u>42,919</u>	<u>65,170</u>
Total	<u>151,300</u>	<u>145,727</u>
Timing of revenue recognition		
Goods or services transferred at a point in time	<u>151,300</u>	<u>145,727</u>

Geographical markets

All of the Group's revenues were generated from customers located in Chinese Mainland during the year.

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2023 RMB'000	2022 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the year:		
Genetic testing services	<u>9,858</u>	<u>10,102</u>

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Genetic testing services

The performance obligation of genetic testing services is satisfied upon delivery of testing reports and payment is generally due within three to six months from the date of billing, except for certain customers, where payment in advance is required. The performance obligation of sale of relevant medical materials is satisfied upon receipt of materials by customers and payment is generally due within three to six months from the date of billing, except for certain customers, where payment in advance is required.

An analysis of other income and gains is as follows:

	2023 RMB'000	2022 RMB'000
Rental income	142	2,549
Bank interest income	722	1,386
Government grants*	5,439	869
Investment income from financial assets at fair value through profit or loss	5,343	2,626
Foreign exchange differences, net	1,439	11,749
Others	329	42
Total other income and gains	13,414	19,221

* The government grants mainly represent subsidies from the local government to support the Group's operation and to compensate the Group for its purchase of laboratory equipment. During the year, government grants amounting to RMB600,000 (2022: RMB600,000) were recognised from deferred income (note 24).

Notes to Financial Statements

31 December 2023

6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	Notes	2023 RMB'000	2022 RMB'000
Cost of services provided		63,004	64,004
Depreciation of property, plant and equipment	13	8,256	8,328
Depreciation of right-of-use assets	14(a)	6,709	6,791
Amortisation of intangible assets*	15	155	159
Research and development costs**		22,376	19,437
Lease payments not included in the measurement of lease liabilities	14(c)	1,182	1,256
Covid-19-related rent concessions from lessors		–	(159)
Listing expenses		–	15,516
Auditor's remuneration		1,200	1,500
Bank interest income		(722)	(1,386)
Government grants		(5,439)	(869)
Investment income from financial assets at fair value through profit or loss		(5,343)	(2,626)
Changes in fair value of financial assets at fair value through profit or loss		430	170
(Reversal of impairment)/impairment of trade receivables, net	17	(13,975)	25,852
Impairment of other receivables, net	18	2,396	–
Foreign exchange differences, net		(1,439)	(11,749)
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		43,119	47,802
Share-based payment expense		2,161	1,467
Pension scheme contributions***		4,437	5,562
Staff welfare expenses		1,449	897
Total		51,166	55,728

* The amortisation of intangible assets is included in "Administrative expenses" and "Cost of sales" in the consolidated statements of profit or loss and other comprehensive income.

** Research and development costs are included in "Administrative expenses" in the consolidated statements of profit or loss and other comprehensive income.

*** There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2023 RMB'000	2022 RMB'000
Interest on bank loans	265	–
Interest on lease liabilities (note14(b))	857	719
Total	1,122	719

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Group	
	2023 RMB'000	2022 RMB'000
Fees	648	369
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	2,559	2,472
Pension scheme contributions	289	274
Share-based payment expense	5,127	3,479
Subtotal	7,975	6,225
Total	8,623	6,594

In prior year, certain directors were granted restricted share units ("RSUs"), in respect of their services to the Group, under the restricted share unit scheme ("RSU Scheme") of the Company, further details of which are set out in note 27 to the financial statements. The fair value of such RSU, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

Notes to Financial Statements

31 December 2023

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2023 RMB'000	2022 RMB'000
Dr. Zhang Ying	216	123
Dr. Xie Dan	216	123
Mr. Jia Qingfeng	216	123
Total	648	369

There were no other emoluments payable to the independent non-executive directors during the year (2022: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors, non-executive director and the chief executive

	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Share-based payment expense RMB'000	Total RMB'000
2023					
Executive directors:					
Dr. Yu Rong	-	-	-	-	-
Ms. Lin Lin	-	1,600	-	3,644	5,244
Mr. Huang Yufeng*	-	487	152	134	773
Ms. Jiang Jing	-	472	137	134	743
Subtotal	-	2,559	289	3,912	6,760
Non-executive director:					
Ms. Guo Meiling	-	-	-	1,215	1,215
Total	-	2,559	289	5,127	7,975
2022					
Executive directors:					
Dr. Yu Rong	-	-	-	-	-
Ms. Lin Lin	-	1,600	-	2,473	4,073
Mr. Huang Yufeng*	-	520	139	91	750
Ms. Jiang Jing	-	352	135	91	578
Subtotal	-	2,472	274	2,655	5,401
Non-executive director:					
Ms. Guo Meiling	-	-	-	824	824
Total	-	2,472	274	3,479	6,225

* Mr. Huang Yufeng was appointed as the chief executive of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

Notes to Financial Statements

31 December 2023

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors and the chief executive (2022: three directors and the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration for the remaining one (2022: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2023 RMB'000	2022 RMB'000
Salaries, bonuses, allowances and benefits in kind	451	432
Pension scheme contributions	152	139
Total	603	571

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2023	2022
Nil to HK\$1,000,000	1	1

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in this jurisdiction.

The statutory tax rate for the subsidiary in Hong Kong is 16.5% (2022: 16.5%). No Hong Kong profits tax on the subsidiary has been provided as there was no assessable profit arising in Hong Kong during the year (2022: Nil).

The provision for current income tax in Chinese Mainland is based on a statutory tax rate of 25% (2022: 25%) of the assessable profits of the PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law, except for Mega Genomics Beijing, a subsidiary of the Group. Mega Genomics Beijing is qualified as a High and New Technology Enterprise and was subject to tax at a preferential income tax rate of 15% (2022: 15%).

10. INCOME TAX (continued)

The income tax expense/(credit) of the Group is analysed as follows:

	2023 RMB'000	2022 RMB'000
Current – Chinese Mainland		
Charge for the year	4,370	250
Overprovision in prior years	–	(888)
Deferred tax (note 25)	1,771	(3,162)
Total tax charge/(credit) for the year	6,141	(3,800)

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax at the statutory tax rate in Chinese Mainland to the tax expense/(credit) at the effective tax rate is as follows:

	2023 RMB'000	2022 RMB'000
Profit/(loss) before tax	36,179	(21,418)
Tax at the statutory tax rate	9,096	(5,355)
Preferential tax rates enacted by local authority	(4,644)	1,381
Additional deductible allowance for research and development expenses	(1,939)	(1,624)
Expenses not deductible for tax	1,114	902
Tax losses not recognised	2,514	1,784
Adjustments in respect of current tax of previous periods	–	(888)
Tax charge/(credit) at the Group's effective tax rate	6,141	(3,800)

Notes to Financial Statements

31 December 2023

11. DIVIDENDS

The board of directors did not recommend the payment of any final dividend for the year (2022: Nil).

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings/(loss) per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 211,766,697 (2022: 206,292,235) in issue during the year. The number of shares for the current period has been arrived at after eliminating the shares held under the RSU scheme.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2023 and 2022 in respect of a dilution as the impact of the RSU scheme had an anti-dilutive effect on the basic earnings/(loss) per share amounts presented.

13. PROPERTY, PLANT AND EQUIPMENT

	Laboratory equipment RMB'000	Other equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2023					
At 1 January 2023:					
Cost	65,959	3,950	11,326	–	81,235
Accumulated depreciation	(32,549)	(3,718)	(8,046)	–	(44,313)
Net carrying amount	33,410	232	3,280	–	36,922
At 1 January 2023, net of accumulated depreciation	33,410	232	3,280	–	36,922
Additions	2,794	7	1,188	34,744	38,733
Depreciation provided during the year (note 6)	(6,704)	(75)	(1,477)	–	(8,256)
At 31 December 2023, net of accumulated depreciation	29,500	164	2,991	34,744	67,399
At 31 December 2023:					
Cost	68,753	3,957	12,514	34,744	119,968
Accumulated depreciation	(39,253)	(3,793)	(9,523)	–	(52,569)
Net carrying amount	29,500	164	2,991	34,744	67,399

Notes to Financial Statements

31 December 2023

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Laboratory equipment RMB'000	Other equipment RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2022				
At 1 January 2022:				
Cost	64,663	3,937	8,630	77,230
Accumulated depreciation	(25,998)	(3,260)	(6,727)	(35,985)
Net carrying amount	38,665	677	1,903	41,245
At 1 January 2022, net of accumulated depreciation				
	38,665	677	1,903	41,245
Additions	1,296	13	2,696	4,005
Depreciation provided during the year (note 6)	(6,551)	(458)	(1,319)	(8,328)
At 31 December 2022, net of accumulated depreciation	33,410	232	3,280	36,922
At 31 December 2023:				
Cost	65,959	3,950	11,326	81,235
Accumulated depreciation	(32,549)	(3,718)	(8,046)	(44,313)
Net carrying amount	33,410	232	3,280	36,922

At 31 December 2023, certain of the Group's property, plant and equipment with a net carrying amount of approximately RMB34,744,000 (2022: Nil) were pledged to secure bank loans (note 23).

14. LEASES

The Group as a lessee

The Group has lease contracts for offices and warehouses used in its operations. Leases of offices and warehouses generally have lease terms between 4 and 5 years.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Offices and warehouses RMB'000
As at 1 January 2022	9,885
Additions	6,896
Depreciation charge (note 6)	(6,791)
As at 31 December 2022 and at 1 January 2023	9,990
Additions	23,369
Depreciation charge (note 6)	(6,709)
As at 31 December 2023	26,650

(b) Lease liabilities

The carrying amounts of lease liabilities and the movements during the year are as follows:

	2023 RMB'000	2022 RMB'000
Carrying amount at 1 January	10,986	11,569
New leases	23,369	6,896
Accretion of interest recognised during the year (note 7)	857	719
Covid-19-related rent concessions from lessors	–	(159)
Payments	(9,285)	(8,039)
Carrying amount at 31 December	25,927	10,986
Analysed into:		
Current portion	10,616	6,480
Non-current portion	15,311	4,506

Notes to Financial Statements

31 December 2023

14. LEASES (continued)

The Group as a lessee (continued)

(b) Lease liabilities (continued)

The maturity analysis of lease liabilities is disclosed in note 34 to the financial statements.

The Group applied the practical expedient to all eligible covid-19-related rent concessions granted by the lessors during the year ended 31 December 2022.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2023 RMB'000	2022 RMB'000
Interest on lease liabilities	857	719
Depreciation charge of right-of-use assets	6,709	6,791
Covid-19-related rent concessions from lessors	–	(159)
Expenses relating to short-term leases (included in cost of sales, administrative expenses, selling and distribution expenses and other expenses)	1,182	1,256
Total amount recognised in profit or loss	8,748	8,607

(d) The total cash outflow for leases is disclosed in note 29(c) to the financial statements.

The Group as a lessor

The Group leases its laboratory equipment under operating lease arrangements. The terms of the lease contracts were generally within one year. Rental income recognised by the Group during the year was RMB142,000 (2022: RMB2,549,000), details of which are included in note 5 to the financial statements.

At the end of the reporting period, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2023 RMB'000	2022 RMB'000
Within one year	–	1,600

15. INTANGIBLE ASSETS

	Software RMB'000
31 December 2023	
Cost at 1 January 2023, net of accumulated amortisation	834
Additions	240
Amortisation provided during the year (note 6)	<u>(155)</u>
At 31 December 2023	<u>919</u>
At 31 December 2023:	
Cost	1,614
Accumulated amortisation	<u>(695)</u>
Net carrying amount	<u>919</u>
31 December 2022	
Cost at 1 January 2022, net of accumulated amortisation	811
Additions	182
Amortisation provided during the year (note 6)	<u>(159)</u>
At 31 December 2022	<u>834</u>
At 31 December 2022:	
Cost	1,374
Accumulated amortisation	<u>(540)</u>
Net carrying amount	<u>834</u>

Notes to Financial Statements

31 December 2023

16. INVENTORIES

	2023 RMB'000	2022 RMB'000
Raw materials and consumables	<u>4,409</u>	<u>3,508</u>

17. TRADE RECEIVABLES

	2023 RMB'000	2022 RMB'000
Trade receivables	140,361	223,282
Impairment	<u>(24,484)</u>	<u>(38,459)</u>
Net carrying amount	<u>115,877</u>	<u>184,823</u>

The Group's trading terms with its customers are mainly on credit. The credit terms granted generally ranges from three to six months, depending on the specific payment terms in each contract. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Included in the Group's trade receivables are amounts due from related parties of RMB101,480,000 (2022: RMB162,266,000), which are repayable on credit terms similar to those offered to the customers of the Group.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice dates and net of loss allowance, is as follows:

	2023 RMB'000	2022 RMB'000
Within 3 months	52,866	48,703
3 to 6 months	10,042	24,383
6 to 12 months	28,512	29,273
1 to 2 years	15,020	79,608
Over 2 years	<u>9,437</u>	<u>2,856</u>
Total	<u>115,877</u>	<u>184,823</u>

17. TRADE RECEIVABLES (continued)

The movements in the loss allowance for impairment of trade receivables are as follows:

	2023 RMB'000	2022 RMB'000
At beginning of year	38,459	12,607
(Reversal of impairment)/impairment of trade receivables, net (note 6)	<u>(13,975)</u>	<u>25,852</u>
At end of year	<u>24,484</u>	<u>38,459</u>

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Trade receivables for which the counterparties failed to make the demanded repayments are defaulted receivables. The Group has provided for 100% of the defaulted receivables during the year.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2023

	Default receivables	Trade receivables ageing			Total
		Within 1 year	1 to 2 years	2 to 3 years	
Expected credit loss rate	100%	3.36%	21.34%	50.25%	17.44%
Gross carrying amount (RMB'000)	7,701	94,598	19,094	18,968	140,361
Expected credit losses (RMB'000)	7,701	3,178	4,074	9,531	24,484

As at 31 December 2022

	Default receivables	Trade receivables ageing			Total
		Within 1 year	1 to 2 years	2 to 3 years	
Expected credit loss rate	100%	1.48%	24.27%	48.22%	17.22%
Gross carrying amount (RMB'000)	8,748	103,892	105,126	5,516	223,282
Expected credit losses (RMB'000)	8,748	1,533	25,518	2,660	38,459

Notes to Financial Statements

31 December 2023

18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2023 RMB'000	2022 RMB'000
Prepayments	7,985	7,012
Deposits and other receivables	10,377	8,700
Deductible input value-added tax	4,461	897
Income tax recoverable	–	5,533
Other assets	8,776	8,776
	31,599	30,918
Impairment allowance	(2,396)	–
Total	29,203	30,918

Included in the Group's prepayments, other receivables and other assets were other receivables of RMB5,614,000 (2022: RMB7,699,000) due from related parties and prepayments of RMB848,000 (2022: RMB1,056,000) to related parties.

An impairment analysis is performed at each reporting date by considering the probability of default for other receivables. The Group considered the historical loss rate and adjusted it for forward-looking macroeconomic data in calculating the expected credit loss rate.

The movements in the loss allowance for impairment of other receivables are as follows:

	2023 RMB'000	2022 RMB'000
At beginning of year	–	–
Impairment losses, net (note 6)	2,396	–
At end of year	2,396	–

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023 RMB'000	2022 RMB'000
Unlisted equity investment, at fair value	29,600	30,030

The above equity investment was classified as a financial asset at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income. The fair value of the unlisted equity investment which is not quoted in an active market is valued using observable inputs such as recently executed transaction prices in securities of the issuer or, if there was no recently executed transaction prices, using significant unobservable inputs. Further details are set out in note 33 to the financial statements.

20. CASH AND CASH EQUIVALENTS

	2023 RMB'000	2022 RMB'000
Cash and bank balances	518,289	399,831
Denominated in RMB	517,569	356,546
Denominated in United States dollar ("US\$")	376	25,472
Denominated in Hong Kong dollar ("HK\$")	344	17,813
Total	518,289	399,831

The RMB is not freely convertible into other currencies, however, under Chinese Mainland's Foreign Exchange Control Regulations and Administration of Settlement, and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

Notes to Financial Statements

31 December 2023

21. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2023 RMB'000	2022 RMB'000
Within 3 months	13,322	12,592
3 to 6 months	5,241	8,406
6 to 12 months	10,580	9,847
1 to 2 years	9,640	3,216
Over 2 years	758	696
Total	39,541	34,757

The trade payables are non-interest-bearing and are normally settled within six months.

Included in the Group's trade payables are amounts due to related parties of RMB735,000 (2022: RMB195,000) with credit terms similar to those offered by the related parties to their customers.

22. OTHER PAYABLES AND ACCRUALS

	Notes	2023 RMB'000	2022 RMB'000
Payroll payables		3,941	5,989
Contract liabilities	(a)	52,267	9,858
Other payables	(b)	2,608	21,479
Tax payables other than income tax		1,049	460
Accrued expenses		1,200	1,500
Total		61,065	39,286

Notes:

(a) Details of contract liabilities are as follows:

	31 December 2023 RMB'000	31 December 2022 RMB'000	1 January 2022 RMB'000
<i>Short-term advances received from customers</i>			
Genetic testing services	52,267	9,858	10,102

Contract liabilities include short-term advances received to render genetic testing services to customers which the Group has received consideration. The increase in contract liabilities in 2023 was mainly due to the increase in short-term advances received from customers in relation to the provision of genetic testing services at the end of the year.

Included in contract liabilities were advances received from the Group's related parties of RMB45,708,000 (2022: RMB3,189,000).

(b) Other payables are non-interest-bearing and repayable on demand. Included in other payables is an amount due to the Group's related party of RMB15,500,000 as at 31 December 2022.

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

31 December 2023

	Effective interest rate (%)	Maturity	RMB'000
Current			
Current portion of long-term bank loan – secured	5-year LPR+0.1	2024	1,912
Non-current			
Bank loan – secured	5-year LPR+0.1	2025 – 2033	20,723
Total			22,635
Analysed into:			
Bank loan repayable:			
Within one year			1,912
In the second year			1,995
In the third to fifth years, inclusive			6,524
Beyond five years			12,204
Total			22,635

The Group's bank loan is secured by mortgages over the Group's property, plant and equipment, which had a net carrying value at the end of the reporting period of approximately RMB34,744,000 (note 13). In addition, the property seller has guaranteed the Group's bank loan.

Notes to Financial Statements

31 December 2023

24. DEFERRED INCOME

	2023 RMB'000	2022 RMB'000
Government grants		
Current	600	600
Non-current	<u>1,350</u>	<u>1,950</u>
Total	<u>1,950</u>	<u>2,550</u>

The movements in government grants are as follows:

	2023 RMB'000	2022 RMB'000
At beginning of year	2,550	3,150
Amount released to other income (note 5)	<u>(600)</u>	<u>(600)</u>
At end of year	<u>1,950</u>	<u>2,550</u>

The grants are related to the subsidies received from the local government for the purpose of compensation for purchases of laboratory equipment. Upon having passed the final assessment of the relevant government authorities, the grants related to assets would be released to profit or loss over the expected useful lives of the relevant assets.

25. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	2023						Total RMB'000
	Lease liabilities RMB'000	Impairment of other receivables RMB'000	Impairment of trade receivables RMB'000	Deferred income RMB'000	Accrued expenses RMB'000	Fair value adjustments of equity investment at fair value through profit or loss RMB'000	
At 1 January 2023	1,649	-	5,208	383	225	-	7,465
Deferred tax credited/(charged) to profit or loss during the year (note 10)	2,242	359	(1,802)	(90)	(45)	66	730
Gross deferred tax assets at 31 December 2023	3,891	359	3,406	293	180	66	8,195

	2022					Total RMB'000
	Lease liabilities RMB'000	Impairment of trade receivables RMB'000	Deferred income RMB'000	Accrued expenses RMB'000		
At 1 January 2022		1,736	1,891	473	212	4,312
Deferred tax credited/(charged) to profit or loss during the year (note 10)		(87)	3,317	(90)	13	3,153
Gross deferred tax assets at 31 December 2022		1,649	5,208	383	225	7,465

Notes to Financial Statements

31 December 2023

25. DEFERRED TAX (continued)

The movements in deferred tax assets and liabilities during the year are as follows: (continued)

Deferred tax liabilities

	2023		
	Fair value adjustments of equity investment at fair value through profit or loss RMB'000	Right-of-use assets RMB'000	Total RMB'000
At 1 January 2023	(1)	1,499	1,498
Deferred tax charged to profit or loss during the year (note 10)	1	2,500	2,501
Gross deferred liabilities at 31 December 2023	–	3,999	3,999

	2022		
	Fair value adjustments of equity investment at fair value through profit or loss RMB'000	Right-of-use assets RMB'000	Total RMB'000
At 1 January 2022	24	1,483	1,507
Deferred tax charged/(credited) to profit or loss during the year (note 10)	(25)	16	(9)
Gross deferred liabilities at 31 December 2022	(1)	1,499	1,498

25. DEFERRED TAX (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2023 RMB'000	2022 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	<u>4,196</u>	<u>5,967</u>

The Group has tax losses arising in Chinese Mainland of RMB20,070,000 (2022: RMB10,014,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

The Group is liable for withholding taxes on dividends distributed by those subsidiaries established in Chinese Mainland in respect of earnings generated from 1 January 2008. The applicable rate is 5% or 10% for the Group.

At 31 December 2023, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Chinese Mainland. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Chinese Mainland for which deferred tax liabilities have not been recognised totalled approximately RMB150,018,000 (2022: RMB109,721,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Notes to Financial Statements

31 December 2023

26. SHARE CAPITAL AND TREASURY SHARES

	2023 US\$	2022 US\$
Authorised:		
500,000,000 (2022: 500,000,000) ordinary shares of US\$0.0001 each	<u>50,000</u>	<u>50,000</u>
Issued and fully paid:		
210,717,200 (2022: 211,961,800) ordinary shares of US\$0.0001 each	21,072	21,196
Issued but not paid:		
27,272,000 (2022: 27,272,000) ordinary shares of US\$0.0001 each	<u>2,727</u>	<u>2,727</u>
Total	<u>23,799</u>	<u>23,923</u>
Equivalent to RMB	<u>154,000</u>	<u>155,000</u>

A summary of movements in the Company's share capital and treasury shares is as follows:

	Number of shares	Share capital RMB'000	Treasury shares RMB'000
At 1 January 2022	200,000,000	129	–
Issue of shares on 1 June 2022	27,272,000	18	–
Initial public offering	<u>11,961,800</u>	<u>8</u>	<u>–</u>
At 31 December 2022 and 1 January 2023	239,233,800	155	–
Shares repurchased (note)	–	–	(10,496)
Shares cancelled (note)	<u>(1,244,600)</u>	<u>(1)</u>	<u>8,929</u>
At 31 December 2023	<u>237,989,200</u>	<u>154</u>	<u>(1,567)</u>

Note:

During the year, the Company repurchased 1,464,800 shares on the Hong Kong Stock Exchange for a total consideration of HK\$11,452,000 (equivalent to RMB10,496,000) and 1,244,600 shares were cancelled.

27. SHARE-BASED PAYMENT

The Company operates a RSU Scheme for the purpose to recognise and motivate the contributions by participants of the RSU Scheme and give incentives thereto in order to retain them, as well as to attract suitable personnel for the Groups' further development. Eligible participants of the RSU Scheme include any full-time and part-time employee, director or officer of any member of the Group, any person or entity that provides research, development, consultancy and other technical or operational or administrative support to the Group; and any other persons including former employees who have contributed or will contribute to any member of the Group. The RSU Scheme shall be valid and effective for the period of ten years commencing on the listing date of the Company.

The overall limit on the number of shares that may be delivered under the RSU Scheme must not exceed 27,272,000 shares. The consideration payable by a selected participant to the trustee for acceptance of the RSU granted to such participant shall be determined at the sole and absolute discretion of the RSU administration committee as established by the Board (the "RSU Committee"). The RSU Scheme shall be subject to the administration of the RSU Committee, which comprises Ms. Lin Lin, the executive director and chairperson of the Company, as the initial sole members. All decisions made by the RSU Committee is final and binding on all parties. The RSU Committee established a trust (the "Trust") and appointed an independent trustee (the "Trustee") to be the trustee of the Trust to hold the shares allotted by the Company to the Trustee on trust, and to assist in the administration and vesting of the RSUs.

There are no cash settlement alternatives. The Group does not have a past practice of cash settlement for these shares. The Group accounts for the RSU Scheme as an equity-settled plan.

On 1 June 2022, the Company allotted and issued 27,272,000 shares to the Trustee, representing all shares underlying the RSUs that may be delivered under the RSU Scheme, to be held for the benefit of eligible participants pursuant to the RSU Scheme. The Trustee will refrain from exercising any voting rights attached to the shares held by it so long as such shares are held under the Trust.

On 29 December 2022, the Company granted to certain eligible participants of the Company a total of 27,272,000 RSUs pursuant to the RSU Scheme at the consideration of HK\$9.90 for each share. The vesting schedule of RSUs granted is that one third of the RSUs granted became vested immediately upon the grant, one third of the RSUs will be vested on the first anniversary of the date of grant, and the remaining one third of the RSUs granted will be vested on the second anniversary of the date of grant.

The fair value of the RSU granted was RMB14,657,000 which was estimated using the closing price of shares on the date of grant, of which the Group recognised a share-based payment expense of RMB7,288,000 (2022: RMB4,946,000) during the year.

Notes to Financial Statements

31 December 2023

28. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

Share premium

The share premium represents the difference between the par value of shares issued and the consideration received.

Capital reserve

The capital reserve of the Group represents the paid-up capital of the subsidiaries comprising the Group prior to the incorporation of the Company, and the recognition of equity upon termination of redemption rights related to the redeemable ordinary shares of Mega Genomics Beijing.

Statutory surplus reserve

In accordance with the Company Law of the PRC, subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their statutory surplus reserve until the reserve reaches 50% of their registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB23,369,000 (2022: RMB6,896,000) and RMB23,369,000 (2022: RMB6,896,000), respectively, in respect of lease arrangements for offices and warehouses.

(b) Changes in liabilities arising from financing activities

2023

	Bank loans RMB'000	Lease liabilities RMB'000
At 1 January 2023	–	10,986
New leases	–	23,369
Changes from financing cash flows	22,370	(9,285)
Interest expense	265	857
	<hr/>	<hr/>
At 31 December 2023	22,635	25,927

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**(b) Changes in liabilities arising from financing activities (continued)**

2022

	Lease liabilities RMB'000
At 1 January 2022	11,569
New leases	6,896
Changes from financing cash flows	(8,039)
Covid-19-related rent concession from lessors	(159)
Interest expense	719
	<hr/>
At 31 December 2022	<hr/> 10,986

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2023 RMB'000	2022 RMB'000
Within operating activities	1,182	1,256
Within financing activities	9,285	8,039
	<hr/>	<hr/>
Total	10,467	9,295
	<hr/>	<hr/>

30. COMMITMENTS

At the end of the reporting period, the Group did not have any significant contractual commitments.

Notes to Financial Statements

31 December 2023

31. RELATED PARTY TRANSACTIONS

Details of the Group's related parties are as follows:

Company	Relationship with the Company
Dr. Yu Rong	Shareholder and director
Meinian Onehealth Healthcare Holdings Co., Ltd. and its subsidiaries ("Meinian Onehealth")	Shareholder
Suzhou Ruihua Investment Partnership (LP)	Shareholder
Beijing Meinian Meican Clinic Co., Ltd.	Controlled by Yu Rong
Beijing Meinian Meihe Clinic Co., Ltd.	Controlled by Yu Rong
Beijing Tianyi Hongfang Investment Management Co., Ltd.	Controlled by Yu Rong
Changchun Meijian Health Technology Co., Ltd.	Controlled by Yu Rong
Chongqing Meiyi Health Management Co., Ltd.	Controlled by Yu Rong
Jinan Meinianda Health Technology Co., Ltd.	Controlled by Yu Rong
Jinjian Technology Services (Beijing) Co., Ltd.	Controlled by Yu Rong
Meizhi Health Management (Beijing) Co., Ltd.	Controlled by Yu Rong
Shandong Meiming Aoya Health Consulting Co., Ltd.	Controlled by Yu Rong
Shanghai Meizhao Zheyuan Clinic Co., Ltd.	Controlled by Yu Rong
Shanghai Tianyi Hongfang Property Management Co., Ltd.	Controlled by Yu Rong
Shaoxing Meizhao Outpatient Medical Co., Ltd.	Controlled by Yu Rong
Shenzhen Meichen Health Management Co., Ltd.	Controlled by Yu Rong
Shenzhen Meijia Health Management Co., Ltd.	Controlled by Yu Rong
Shenzhen Meiyang Health Management Co., Ltd.	Controlled by Yu Rong
Taizhou Meizhao Health Examination Center (General Partnership)	Controlled by Yu Rong
Tianjin Binhai New District Ciai Clinic Co., Ltd.	Controlled by Yu Rong
Tianjin Ciming Aoya Hospital Management Consulting Co., Ltd.	Controlled by Yu Rong
Zhuhai Meinian Health Management Co., Ltd.	Controlled by Yu Rong
Wuhan Meici Aoya Technology Management Co., Ltd.	Controlled by Yu Rong
Shenzhen Yierkang Health Management Co., Ltd.	Controlled by Yu Rong
Chengdu Jinniu Meinian Health Management Consulting Co., Ltd.	Controlled by Yu Rong
Shenyang Heping Aoya Hospital Co., Ltd.	Controlled by Yu Rong
Guangzhou Meinian Health Medical Technology Co., Ltd.	Controlled by Yu Rong

31. RELATED PARTY TRANSACTIONS (continued)

(a) The Group had the following transactions with related parties during the year:

	2023 RMB'000	2022 RMB'000
Services provided to: (note i)		
Meinian Onehealth	87,805	82,057
Shenzhen Yierkang Health Management Co., Ltd.	635	897
Chengdu Jinniu Meinian Health Management Consulting Co., Ltd.	416	323
Chengdu MJ Health Management Co., Ltd.	–	249
Changchun Meijian Health Technology Co., Ltd.	352	214
Shenyang Heping Aoya Hospital Co., Ltd.	1,066	834
Beijing Meinian Meican Clinic Co., Ltd.	13,269	2,773
Zhuhai Meinian Health Management Co., Ltd.	234	26
Beijing Meinian Meihe Clinic Co., Ltd.	2,428	675
Shaoxing Meizhao Outpatient Medical Co., Ltd.	228	232
Jinan Meinianda Health Technology Co., Ltd.	356	1,043
Shandong Meiming Aoya Health Consulting Co., Ltd.	284	465
Shenzhen Meichen Health Management Co., Ltd.	13	237
Shenzhen Meijia Health Management Co., Ltd.	206	357
Taizhou Meizhao Health Examination Center (General Partnership)	37	227
Wuhan Meici Aoya Technology Management Co., Ltd.	199	637
Chongqing Meiyi Health Management Co., Ltd.	286	63
Guangzhou Meinian Health Medical Technology Co., Ltd	219	–
Other companies controlled by Yu Rong	931	730
	108,964	92,039
Total	108,964	92,039

Notes to Financial Statements

31 December 2023

31. RELATED PARTY TRANSACTIONS (continued)

(a) The Group had the following transactions with related parties during the year: (continued)

	2023	2022
	RMB'000	RMB'000
Services provided by: (note i)		
Meinian Onehealth	580	1,344
Beijing Meinian Meican Clinic Co., Ltd.	12	68
Total	592	1,412
Property management services provided by: (note ii)		
Shanghai Tianyi Hongfang Property Management Co., Ltd.	1,320	1,996

Notes:

- (i) The service fees were on normal commercial terms as determined based on arm's length negotiation between the parties with reference to (1) the production cost and gross profit requirements of the Group; (2) the government's prescribed price and the prevailing service fee of a similar service provider in the market; and (3) the sales to the buyer's end customers.
- (ii) The property management service fee was charged with reference to prices mutually agreed between the parties.

31. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties:

	2023	2022
	RMB'000	RMB'000
Trade receivables		
Meinian Onehealth	60,188	95,395
Shenzhen Yierkang Health Management Co., Ltd.	–	1,786
Meizhi Health Management (Beijing) Co., Ltd.	1,645	1,650
Shenzhen Meiyang Health Management Co., Ltd.	123	315
Chengdu Jinniu Meinian Health Management Consulting Co., Ltd.	–	425
Shenyang Heping Aoya Hospital Co., Ltd.	–	3,412
Shenzhen Meichen Health Management Co., Ltd.	–	1,237
Shenzhen Meijia Health Management Co., Ltd.	138	486
Beijing Meinian Meihe Clinic Co., Ltd.	2,232	2,922
Jinan Meinianda Health Technology Co., Ltd.	969	2,597
Changchun Meijian Health Technology Co., Ltd.	–	843
Shaoxing Meizhao Outpatient Medical Co., Ltd.	341	248
Shandong Meiming Aoya Health Consulting Co., Ltd.	690	1,104
Shanghai Meizhao Zheyuan Clinic Co., Ltd.	–	1,040
Taizhou Meizhao Health Examination Center (General Partnership)	274	237
Tianjin Binhai New District Ciai Clinic Co., Ltd.	18	334
Tianjin Ciming Aoya Hospital Management Consulting Co., Ltd.	81	467
Beijing Meinian Meican Clinic Co., Ltd.	33,512	46,648
Chongqing Meiyi Health Management Co., Ltd.	303	615
Wuhan Meici Aoya Technology Management Co., Ltd.	297	–
Other companies controlled by Yu Rong	669	505
	<hr/>	<hr/>
Total	101,480	162,266

Notes to Financial Statements

31 December 2023

31. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties: (continued)

	2023 RMB'000	2022 RMB'000
Other receivables		
Jinjian Technology Services (Beijing) Co., Ltd.	4,246	4,331
Shanghai Tianyi Hongfang Property Management Co., Ltd.	172	172
Beijing Meinian Meican Clinic Co., Ltd.	–	2,000
Beijing Tianyi Hongfang Investment Management Co., Ltd.	1,196	1,196
	<u>5,614</u>	<u>7,699</u>
Total	<u>5,614</u>	<u>7,699</u>
Prepayments		
Meinian Onehealth	848	1,056
	<u>848</u>	<u>1,056</u>
Trade payables		
Meinian Onehealth	489	–
Shanghai Tianyi Hongfang Property Management Co., Ltd.	177	110
Beijing Meinian Meican Clinic Co., Ltd.	69	85
	<u>735</u>	<u>195</u>
Total	<u>735</u>	<u>195</u>
Contract liabilities		
Meinian Onehealth	44,384	3,189
Zhuhai Meinian Health Management Co., Ltd.	997	–
Other companies controlled by Yu Rong	327	–
	<u>45,708</u>	<u>3,189</u>
Total	<u>45,708</u>	<u>3,189</u>
Lease liabilities		
Beijing Tianyi Hongfang Investment Management Co., Ltd.	25,927	10,986
	<u>25,927</u>	<u>10,986</u>
Other payables		
Suzhou Ruihua Investment Partnership (LP) (“Suzhou Ruihua”)	–	15,500
	<u>–</u>	<u>15,500</u>

All outstanding balances with related parties were all trade in nature except the other payable balance due to Suzhou Ruihua was non-trade and interest-free. Details of the Group’s trade balances with related parties are disclosed in notes 17, 18, 21 and 22 to the financial statements.

31. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel of the Group:

	2023 RMB'000	2022 RMB'000
Salaries, allowances and benefits in kind	2,352	2,542
Pension scheme contributions	770	854
Share-based payment expense	316	215
Total compensation paid to key management personnel	3,438	3,611

Further details of directors' emoluments are included in note 8 to the financial statements.

The related party transactions in respect of the genetic testing services provided to Meinian Onehealth and companies controlled by Dr. Yu Rong above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Notes to Financial Statements

31 December 2023

32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2023

Financial assets

	Financial assets at fair value through profit or loss		Total RMB'000
	Mandatorily designated as such RMB'000	Financial assets at amortised cost RMB'000	
Trade receivables	–	115,877	115,877
Financial assets included in prepayments, other receivables and other assets	–	6,626	6,626
Financial assets at fair value through profit or loss	29,600	–	29,600
Cash and cash equivalents	–	518,289	518,289
Total	29,600	640,792	670,392

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	39,541
Financial liabilities included in other payables and accruals	3,808
Interest-bearing bank and other borrowings	22,635
Lease liabilities	25,927
Total	91,911

32. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2022

Financial assets

	Financial assets at fair value through profit or loss	Financial assets at amortised cost	Total
	Mandatorily designated as such RMB'000	RMB'000	RMB'000
Trade receivables	–	184,823	184,823
Financial assets included in prepayments, other receivables and other assets	–	8,242	8,242
Financial assets at fair value through profit or loss	30,030	–	30,030
Cash and cash equivalents	–	399,831	399,831
Total	30,030	592,896	622,926

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	34,757
Financial liabilities included in other payables and accruals	21,479
Lease liabilities	10,986
Total	67,222

Notes to Financial Statements

31 December 2023

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, trade receivables, trade payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals and current portion of interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values.

The fair values of the non-current financial liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for lease liabilities as at 31 December 2023 were assessed to be insignificant.

As at 31 December 2022, the fair value of the unlisted equity investment at fair value through profit or loss has been estimated using observable inputs such as recently executed transaction prices in securities of the issuer. As at 31 December 2023, the fair value of the unlisted equity investment at fair value through profit or loss has been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires management to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, which is price to sales ("P/S") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by a sales measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to measure the fair value of the unlisted equity investment. Management believes that the estimated fair values resulting from the valuation technique, which were recorded in the consolidated statement of financial position, and the related changes in fair values, which were recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2023:

	Valuation technique	Significant unobservable inputs	Rate	Sensitivity of fair value to the input
Financial assets at fair value through profit or loss	Market – based valuation	Discount for lack of marketability	20.54%	5% increase/decrease in discount would result in decrease/increase in fair value by 6%

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2023

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through profit or loss	–	–	29,600	29,600

Notes to Financial Statements

31 December 2023

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Assets measured at fair value: (continued)

As at 31 December 2022

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets at fair value through profit or loss	–	30,030	–	30,030

The movements in fair value measurements within Level 3 during the year are as follows:

	31 December 2023 RMB'000
Financial assets at fair value through profit or loss	
At beginning of year	30,030
Total losses recognised in profit or loss included in other expenses	(430)
At end of year	29,600

During the year, financial assets at fair value through profit or loss of RMB29,600,000 were transferred out of Level 2 to Level 3 due to the reason that no observable input was available to estimate the fair value of the unlisted equity investment (2022: RMB30,030,000 was transferred out of Level 3 to Level 2 due to the reason that observable inputs such as recent executed transaction prices in securities of the issuer were available to estimate the fair value of the unlisted equity investment).

The Group did not have any financial liabilities measured at fair value as at the end of the reporting period.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Group trades with related parties and recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. Since the Group trades with related parties and recognised and creditworthy entities, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty. As at the end of the reporting period, the Group had certain concentrations of credit risk as 44% (2022: 45%) and 76% (2022: 72%) of the Group's trade receivables were due from the Group's largest customer and five largest customers, respectively.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on ageing information unless other information was available without undue cost or effort, and year-end staging classification at the end of the reporting period. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2023

	12-month ECLs		Lifetime ECLs		Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade receivables*	–	–	–	140,361	140,361
Financial assets included in prepayments, other receivables and other assets					
– Normal**	4,776	–	–	–	4,776
– Doubtful**	–	–	4,246	–	4,246
Cash and cash equivalents					
– Not yet past due	518,289	–	–	–	518,289
Total	523,065	–	4,246	140,361	667,672

Notes to Financial Statements

31 December 2023

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging (continued)

As at 31 December 2022

	12-month ECLs		Lifetime ECLs		Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade receivables*	–	–	–	223,282	223,282
Financial assets included in prepayments, other receivables and other assets					
– Normal**	8,242	–	–	–	8,242
Cash and cash equivalents					
– Not yet past due	399,831	–	–	–	399,831
Total	408,073	–	–	223,282	631,355

* For trade receivables to which the Group applies the simplified approach for impairment, further information is disclosed in note 17 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be “doubtful”.

Further quantitative data in respect of the Group’s exposure to credit risk arising from trade receivables are disclosed in note 17 to the financial statements.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by management of the Group to finance the operations and mitigate the effects of fluctuations in cash flows.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2023					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 3 years RMB'000	Over 3 years RMB'000	
Trade payables	20,978	5,241	13,322	–	–	39,541
Financial liabilities included in other payables and accruals	3,808	–	–	–	–	3,808
Interest-bearing bank and other borrowing	–	714	2,141	5,709	19,266	27,830
Lease liabilities	232	5,835	1,045	13,759	7,598	28,469
Total	25,018	11,790	16,508	19,468	26,864	99,648

	2022					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 3 years RMB'000	Over 3 years RMB'000	
Trade payables	13,759	8,406	12,592	–	–	34,757
Financial liabilities included in other payables and accruals	21,479	–	–	–	–	21,479
Lease liabilities	–	2,050	4,796	3,277	1,548	11,671
Total	35,238	10,456	17,388	3,277	1,548	67,907

Notes to Financial Statements

31 December 2023

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital for the years ended 31 December 2023 and 31 December 2022.

The Group monitors capital using a gearing ratio, which is debt divided by total assets. Debt includes trade payables, other payables and accruals, interest-bearing bank and other borrowings and lease liabilities. The gearing ratios as at the end of the reporting periods were as follows:

	2023	2022
	RMB'000	RMB'000
Trade payables	39,541	34,757
Other payables and accruals	61,065	39,286
Interest-bearing bank and other borrowings	22,635	–
Lease liabilities	25,927	10,986
Debt	149,168	85,029
Total assets	796,542	705,699
Gearing ratio	19%	12%

35. EVENT AFTER THE REPORTING PERIOD

No other significant events that required additional disclosure or adjustments occurred after the end of the reporting period.

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2023 RMB'000	2022 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	225,417	218,129
Total non-current assets	225,417	218,129
CURRENT ASSETS		
Prepayments, other receivables and other assets	4,702	325
Cash and cash equivalents	160,242	174,531
Total current assets	164,944	174,856
CURRENT LIABILITIES		
Other payables and accruals	1,593	1,361
Total current liabilities	1,593	1,361
NET CURRENT ASSETS	163,351	173,495
TOTAL ASSETS LESS CURRENT LIABILITIES	388,768	391,624
Net assets	388,768	391,624
EQUITY		
Share capital	154	155
Treasury shares	(1,567)	–
Reserves (note)	390,181	391,469
Total equity	388,768	391,624

Notes to Financial Statements

31 December 2023

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Share-based payment reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2022	228,688	–	(8,769)	219,919
Total comprehensive income for the year	–	–	799	799
Issue of shares for the initial public offering	184,147	–	–	184,147
Share issue expenses	(18,342)	–	–	(18,342)
Share-based payment arrangement	–	4,946	–	4,946
At 31 December 2022 and 1 January 2023	394,493	4,946	(7,970)	391,469
Total comprehensive income for the year	–	–	352	352
Cancellation of treasury shares	(8,928)	–	–	(8,928)
Share-based payment arrangement	–	7,288	–	7,288
At 31 December 2023	385,565	12,234	(7,618)	390,181

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2024.