You should read the following discussion and analysis with our audited consolidated financial information, including the notes thereto, included in the Accountants' Report in Appendix I to this Document. Our consolidated financial information has been prepared in accordance with IFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions, including the United States.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" in this Document.

For the purpose of this section, unless the context otherwise requires, references to 2021, 2022 and 2023 refer to our financial year ended December 31 of such year. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

We are a seasoned player in China's cognitive impairment DTx market. We are the first company in China that has developed a medical-grade DTx product for cognitive impairment, combining brain science with advanced artificial intelligence (the "**AI**") technologies, according to Frost & Sullivan. Our product pipeline covers both the assessment and intervention of a broad range of cognitive impairments induced by vascular diseases, neurodegenerative diseases, psychiatric disorders, and child development deficiencies, among others. Our Core Product is the first cognitive impairment DTx product that has obtained regulatory approval in China, according to Frost & Sullivan.

During the Track Record Period, our revenue was primarily generated from provision of the System integral software solutions in hospitals and out of hospitals, research projects, and training facilitation service. We have not been profitable and have incurred net losses during the Track Record Period.

We are a commercial stage company. As of the Latest Practicable Date, the System had been included in the provincial health insurance reimbursement lists of 30 provinces in China.

BASIS OF PREPARATION

The historical financial information has been prepared in accordance with accounting policies which conform with IFRSs issued by the IASB. For the purpose of preparation of the historical financial information, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the historical financial information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We operate in China's DTx industry, and our results of operations have been, and are expected to continue to be, affected by the following factors that affect this industry in general. Many of these factors may be beyond our control, and unfavorable development of these factors could materially and adversely affect demand for our services and products and our results of operations.

Growth and Competitive Landscape of the Cognitive Impairment DTx Market Globally and in China

The cognitive impairment DTx market is relatively new. We believe that our financial performance and future growth are dependent on the overall growth of Cognitive Impairment DTx market globally and in China. According to Frost & Sullivan, the global cognitive impairment DTx market has a size of approximately US$2,529.4 million as measured by sales revenue in 2023, and is expected to grow to approximately US$4,119.6 million in 2025 and US$6,737.0 million in 2030, representing CAGRs of 27.6% and 10.3% from 2023 to 2025 and from 2025 to 2030, respectively. The cognitive impairment DTx market in China has a size of approximately RMB268.6 million as measured by sales revenue in 2023, and is expected to grow to approximately RMB1,046.7 million and RMB8,927.4 million in 2025 and 2030, respectively, representing CAGRs of 97.4% and 53.5% from 2023 to 2025 and from 2025 to 2030, respectively.

The market for cognitive impairment DTx is characterized by technological changes and evolving industry standards. Our ability to keep pace with new technologies in AI and artificial humans, develop and market more advanced products, and maintain our competitive position will significantly affect our results of operations. We believe that leveraging the broad indication coverage by our System and other products, we have developed integrated end-to-end capabilities ranging from R&D to commercialization, and are well positioned to capture the significant growth opportunity in the cognitive impairment DTx market.

Government Policies and Medical Insurance Coverage with Regard to Our Product

The regulatory framework for DTx products is constantly evolving. Increasingly stringent regulatory requirements could create barriers to our development and introduction of new products. Conversely, in the event that regulatory requirements are lowered, competitors could potentially enter the prescription DTx market and compete against us more easily.

Our DTx products are novel and represent a new category of therapeutics for which the regulatory framework continues to evolve. Our ability to develop and introduce new products will depend, in part, on our ability to comply with these complex requirements, which include regulations related to product design and development; clinical trials, pre-market clearance, authorization, and approval; establishment registration; and marketing, sales and distribution. If, however, the regulatory framework for DTx products simplifies and the requirements that we and others are required to comply with are lowered, we may face increased competition and the introduction by competitors of products that are or claim to be superior to our products. For example, if the DTx regulation in China no longer requires Class II or Class III medical device registration for DTx products before commercialization, and the accompanying clinical validation of DTx safety and efficacy is no longer required, our competitive advantages may be significantly lowered.

Moreover, the inclusion of our products and product candidates (upon commercialization) in the governmental insurance coverage would significantly increase the demand for such products, and would therefore have a positive impact on the sales volume of our products and our financial performance. As of the Latest Practicable Date, our System had been included in the provincial health insurance reimbursement lists of 30 provinces in China. However, we may face downward pricing pressure if our products are included in the government insurance coverage, even if such inclusions are expected to increase the sales volume of our products.

In addition to these general factors affecting the industry in which we operate, we believe our results of operations are also affected by the following company specific factors.

Ability to Increase Sales and Market Penetration of Our Products

As of the Latest Practicable Date, we had commercialized our System for eight indications for which we had received the Class II medical device registration certificate from the Hunan MPA. During the Track Record Period, a substantial amount of our revenue was derived from the System. Our revenue growth will depend on our ability to increase sales and market penetration of our products. With respect to the System, our commercialization efforts primarily focus on expanding indication coverage, which we believe will expand the addressable market for our System, as well as establishing collaborations with more hospitals in order to reach more patients and generate more sales as hospitals are expected to remain our primary customers. Particularly, we plan to deepen our market penetration to small- and medium-sized hospitals through our in-house selling and distribution team as well as third-party marketing service providers. The sales volume of our products have been, and will continue to have a significant influence on our results of operations.

Commercialization of Our Product Candidates

Our results of operations also depend on our ability to successfully promote our product candidates upon regulatory approval by the relevant authorities. The commercial success of our products depends upon the degree of market acceptance each of such products achieves, particularly among hospitals, physicians and patients. Such acceptance is in turn determined by, among other factors, our ability to demonstrate the distinctive characteristics and advantages in product safety, efficacy and cost effectiveness compared to our competitors' products and even other therapies. Effect marketing strategies by our in-house team and third-party service providers are also critical in attracting new customers and retaining existing ones.

Ability to Manage Research and Development of Our Products and Product Candidates

We devote significant resources on R&D activities, including conducting preclinical studies, clinical trials and activities related to seeking regulatory approvals, in order to commercialize our System for more indications, bring pipeline products to market, and develop new pipeline products and indication expansion for existing products and product candidates. As of the Latest Practicable Date, we had commercialized our System for eight indications, and are under various stages of development for several other cognitive impairment indications. We also have four other products with regulatory approvals, as well as six additional product candidates targeting the assessment and/or intervention of other types of cognitive impairment and diseases under different stages of preclinical and clinical development or registration process. The success of such R&D activities significantly affects our ability to expand sales, business scale, and in turn results of operation and financial condition.

While we expect to continue to incur significant research and development expenses in the foreseeable future, we need to control the amount of such expenses at a reasonable level in light of the R&D achievements we make. In 2021, 2022, 2023, and the six months ended June 30, 2023 and 2024, our research and development expenses amounted to RMB32.8 million, RMB67.6 million, RMB90.7 million, RMB34.4 million and RMB64.2 million, respectively. Our ability to balance the need to invest in R&D activities and control our operating expenses is key to our ability to reach profitability and sustainable growth.

Ability to Manage Costs and Improve Operating Efficiency

Our effective control of cost of sales and our ability to improve operating efficiency have significant impacts on our results of operations. In 2021, 2022, 2023, and the six months ended June 30, 2023 and 2024, our cost of sales was RMB1.0 million, RMB8.0 million, RMB35.1 million, RMB12.3 million and RMB27.4 million, respectively, accounting for 43.3%, 70.8%, 52.3%, 50.4% and 52.7% of our total revenue for the respective periods. Similarly, our ability to efficiently control our operating expenses also impacts our profitability. In 2021, 2022, 2023, and the six months ended June 30, 2023 and 2024, our selling and distribution expenses amounted to RMB10.8 million, RMB11.9 million, RMB38.4 million, RMB17.0 million and RMB25.4 million, respectively, and our administrative expenses amounted to RMB26.8 million, RMB27.8 million, RMB54.4 million, RMB15.0 million and RMB28.1 million, respectively. We expect our selling and distribution expenses and our administrative expenses to increase in future periods, as we continue to support the expanded commercialization, promotion and marketing of our products and product candidates, and to manage the growth in our overall business scale. Our ability to control our various operating expenses at a reasonable level in light of the achievements we make has a significant impact on our results of operations and financial condition.

Ability to Obtain Funding for Our Operation

During the Track Record Period, we funded our operations primarily through capital injection from shareholders and issuance of redeemable preference shares and long-term bonds. Going forward, as we commercialize the System to cover more indications, commercialize more product candidates, and expand the sales of existing products, we expect to fund our operations in part with cash generated from operating activities. However, with the continuing expansion of our business and development of product candidates, we may require further funding through public or private equity offerings, debt financing and other sources. Any changes in our ability to fund our operations may affect our cash flow and liquidity position, limit our ability to carry out expansion strategies as planned, and otherwise affect our business operations, results of operation, and financial position.

MATERIAL ACCOUNTING POLICY INFORMATION AND CRITICAL JUDGEMENT IN APPLYING ACCOUNTING POLICIES

We set forth below those material accounting policy information that we believe are of critical importance to us or involve the most significant estimates and judgments used in the preparation of our consolidated financial statements. Our material accounting policy information, which is important for an understanding of our financial condition and results of operations, are set forth in detail in Note 4 to the Accountants' Report in Appendix I to this Document.

Material Accounting Policy Information

Revenue Recognition

Revenue from contracts with customers

We recognize revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by our performance as we performs;
- our performance creates or enhances an asset that the customer controls as we perform; or
- our performance does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents our obligation to transfer goods or services to a customer for which we have received consideration (or an amount of consideration is due) from the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Input Method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognize revenue on the basis of our efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict our performance in transferring control of goods or services.

Financial Assets

Amortized Cost and Interest Income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Fair Value Measurement

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, we take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are accounted for in accordance with IFRS 16 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs are to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

Research and Development Expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;

- the intention to complete the intangible asset and use or sell it;

- the ability to use or sell the intangible asset;

- how the intangible asset will generate probable future economic benefits;

- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Property, Plant and Equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property, plant and equipment (other than construction in progress), are stated in the consolidated statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Property, plant and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalized, in accordance with our accounting policy. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost of property, plant and equipment, other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Share-Based Payments

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on our estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payments reserve). At the end of each reporting period, we revise its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve. For shares/share options that vest immediately at the date of grant, the fair value of the shares/share options granted is expensed immediately to profit or loss.

When shares granted are vested, the amount previously recognized in share-based payments reserve will be transferred to other reserve.

Critical Judgement in Applying Accounting Policies

The following is the critical judgment, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the Historical Financial Information.

Research and Development Expenditures

Development costs incurred on our cognitive impairment DTx are capitalized and deferred only when we can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, our intention to complete and use or sell the asset, how the asset will generate probable future economic benefits, the availability of adequate technical, financial and other resources to complete the pipeline, our ability to use or sell the asset and the ability to measure reliably the expenditure during the development. Development costs which do not meet these criteria are expensed when incurred.

The Directors assess the progress of each of the research and development projects and determine whether the criteria are met for capitalization. During the Track Record Period, all development costs were expensed when incurred.

Key Sources of Estimation Uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the coming twelve months.

Fair Value Measurement of Financial Liabilities at FVTPL

No quoted prices in an active market are available for our financial liabilities at FVTPL. These financial liabilities were valued by the Directors with the assistance of an independent qualified professional valuer not connected to us, which has appropriate qualifications and experience in valuation of similar financial instruments. The fair value of these financial liabilities is established by using valuation techniques as disclosed in Notes 27 and 34 of the Accountants' Report included in Appendix I to this Document. Valuation techniques are certified by the valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. Valuation models established by the valuer make the maximum use of market inputs and rely as little as possible on our specific data. However, it should be noted that some inputs, such as possibilities under different scenarios such as [**REDACTED**], liquidation and redemption, require management estimates. The estimates and assumptions are reviewed periodically by the Directors and adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of financial liabilities at FVTPL.

In relation to the valuation of our financial liabilities at FVTPL, our Directors, based on the professional advice received, adopted the following procedures: (i) reviewed the terms of Preferred Shares agreements; (ii) engaged independent business valuer, provided necessary financial and non-financial information so as to enable the valuer to perform valuation procedures and discussed with the valuer on relevant assumptions; (iii) carefully considered all information especially those non-market related information input, such as fair value of the ordinary shares of our Company, possibilities under different scenarios, time to liquidation and discount for lack of marketability, which require management assessments and estimates; and (iv) reviewed the valuation working papers and results prepared by the valuer. Based on the above procedures, our Directors are of the view that the valuation analysis performed by the valuer is fair and reasonable, and the financial statements of our Group are properly prepared.

Details of the fair value measurement of financial liabilities at FVTPL, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value and reconciliation of level 3 measurements are disclosed in Notes 27 and 34 of the Accountants' Report included in Appendix I to this Document issued by the Reporting Accountants. The reporting accountants' opinion on the Historical Financial Information of our Group for the Track Record Period as a whole is set out on I-2 of Appendix I to the Document.

In relation to the fair value assessment of our Group's financial liabilities at FVTPL, the Joint Sponsors have conducted relevant due diligence work, including but not limited to, (i) obtaining and reviewing the terms of the relevant investment agreements regarding the financial liabilities; (ii) obtaining and reviewing the valuation working papers and valuation report prepared by the external valuer we engaged; (iii) discussing with our management to understand the methodology, assumptions and information relied upon in respect of such valuation; (iv) obtaining and reviewing the professional qualification and credentials of the external valuer we engaged in connection with the valuation; (v) discussing with the external valuer we engaged to understand the methodology, assumptions and information relied upon and the work they have performed in respect of such valuation; (vi) discussing with the Reporting Accountants to understand the work they have performed in this regard; and (vii) reviewing the relevant note in the Accountants' Report as contained in Appendix I to this Document and the Reporting Accountants' opinion on the historical financial information for the Track Record Period as a whole. Based upon the due diligence work conducted by the Joint Sponsors as stated above, and having considered the views of the Directors and the Reporting Accountant, nothing material has come to the Joint Sponsors' attention that would cause them to question the valuation of our Group's financial liabilities at FVTPL.

DESCRIPTION OF SELECTED COMPONENTS OF STATEMENTS OF PROFIT OR LOSS

The following table sets forth our consolidated statements of profit or loss and other comprehensive income with line items in absolute amounts and as percentages of our revenue for the periods indicated, which are derived from our consolidated statements of profit or loss and other comprehensive income set out in the Accountants' Report included in Appendix I to this Document.

	For the year ended December 31,			For the six months ended June 30,	
	2021	**2022**	**2023**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (Unaudited)*	*RMB'000*
Revenue	2,299	11,291	67,200	24,412	51,887
Cost of sales	(995)	(7,994)	(35,136)	(12,309)	(27,367)
Gross profit	**1,304**	**3,297**	**32,064**	**12,103**	**24,520**
Other income	1,478	3,915	2,079	1,692	582
Other gains and losses, net	(3)	3,098	2,318	2,139	2,135
Fair value loss of financial liabilities at fair value through profit or loss ("FVTPL")	(623,764)	(385,886)	(165,216)	(163,543)	(243)
Impairment loss under expected credit loss ("ECL") model, net of reversal	(13)	(50)	(848)	(248)	(4,142)

	For the year ended December 31,			For the six months ended June 30,	
	2021	2022	2023	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(Unaudited)*	*RMB'000*
Selling and distribution expenses	(10,813)	(11,928)	(38,399)	(17,024)	(25,376)
Administrative expenses	(26,782)	(27,762)	(54,398)	(15,047)	(28,138)
Research and development expenses	(32,760)	(67,627)	(90,733)	(34,371)	(64,231)
Finance costs	(6,391)	(19,223)	(20,216)	(9,962)	(10,904)
[**REDACTED**] expenses	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]	[**REDACTED**]
Other expenses	(94)	(295)	–	–	–
Loss before tax	(697,838)	(502,461)	(359,116)	(234,570)	(114,389)
Income tax expense	–	–	–	–	–
Loss and total comprehensive expense for the year/period	**(697,838)**	**(502,461)**	**(359,116)**	**(234,570)**	**(114,389)**
(Loss) profit for the year/period attributable to:					
Owners of the Company	(697,837)	(502,452)	(359,083)	(234,597)	(114,328)
Non-controlling interests	(1)	(9)	(33)	27	(61)

Non-IFRS Measures

To supplement our consolidated statements of profit or loss and other comprehensive income, which are presented in accordance with IFRS, we also use adjusted net loss (non-IFRS measure) as an additional financial measure, which is not required by, or presented in accordance with, IFRS. We believe this non-IFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of certain items. We believe this measure provides useful information to [**REDACTED**] and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management in assessing our results of operations. The fair value loss of financial liabilities at FVTPL is adjusted because it will cease upon the completion of this [**REDACTED**]; share-based payments are adjusted because they are non-cash in nature. However, our non-IFRS measure does not have a standardized meaning prescribed by IFRS, and our adjusted net loss (non-IFRS measure) may not be comparable to similarly titled measures presented by other companies. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under IFRS.

We define adjusted net loss (non-IFRS measure) as loss and total comprehensive expense for the year adjusted by adding back fair value loss of financial liabilities at FVTPL and share-based payments, both being non-cash in nature.

The following table reconciles adjusted net loss (non-IFRS measure) for the years/periods indicated to the nearest financial measure calculated and presented in accordance with IFRS, which is loss and total comprehensive expense for the year:

	For the year ended December 31,			For the six months ended June 30,	
	2021	2022	2023	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Reconciliation of loss and total comprehensive expense for the year to adjusted net loss (non-IFRS measure)					
Loss and total comprehensive expense for the year/period	**(697,838)**	**(502,461)**	**(359,116)**	**(234,570)**	**(114,389)**
Add:					
Fair value loss of financial liabilities at FVTPL	623,764	385,886	165,216	163,543	243
Share-based payments	19,370	–	44,873	–	35,304
Adjusted net loss (non-IFRS measure)	**(54,704)**	**(116,575)**	**(149,027)**	**(71,027)**	**(78,842)**

Revenue

We generate revenue from (i) provision of the System integral software solutions in hospitals which enable hospitals to offer assessment and intervention to their cognitive impairment patients; (ii) provision of the System integral software solutions out of hospitals to individual patients; (iii) research projects services we provide to research institutions; (iv) training facilitation service where we assist our customer, the organizer of the training sessions, in performing the organizational and logistical groundwork of training sessions for medical specialists in the cognitive impairment specialty. We ceased offering training facilitation service in January 2024, and entered into a termination agreement with the customer in April 2024; and (v) others, such as sales of hardware embedded with the System and the related user accounts. The following table sets forth a breakdown of our revenue by types of solutions and service during the periods indicated, both in absolute amount and as percentages of total revenue.

	For the year ended December 31,						For the six months ended June 30,			
	2021		2022		2023		2023		2024	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Provision of the System integral software solutions										
In hospitals	967	42.1	4,075	36.1	41,224	61.3	15,216	62.3	35,282	68.0
Out of hospitals	240	10.4	1,095	9.7	5,723	8.5	1,901	7.8	10,544	20.3
Subtotal	**1,207**	**52.5**	**5,170**	**45.8**	**46,947**	**69.8**	**17,117**	**70.1**	**45,826**	**88.3**
Research projects	413	18.0	5,993	53.1	14,290	21.3	5,119	21.0	5,914	11.4
Training facilitation service	–	–	–	–	5,085	7.6	1,324	5.4	–	–
Others	679	29.5	128	1.1	878	1.3	852	3.5	147	0.3
Total	**2,299**	**100.0**	**11,291**	**100.0**	**67,200**	**100.0**	**24,412**	**100.0**	**51,887**	**100.0**

Provision of the System Integral Software Solutions in Hospitals

We provide the System integral software solutions to hospitals which enable them to offer cognitive assessment and intervention to their cognitive impairment patients. The System runs on the hardware provided by us at the cognitive centers of these hospitals. We do not generate revenue in relation to such hardware. We generate revenue from hospitals which pay us based on the amount of in-hospital use by patients and the pricing determined based on negotiation with the hospitals with reference to the applicable prices under the local health insurance reimbursement lists. We generated revenue of RMB1.0 million, RMB4.1 million, RMB41.2 million, RMB15.2 million and RMB35.3 million from hospitals under cognitive center collaborations in 2021, 2022, 2023, and the six months ended June 30, 2023 and 2024, respectively, and recorded gross profits of RMB0.5 million, RMB0.7 million, RMB20.4 million, RMB7.2 million and RMB16.5 million for the same periods, respectively. We sometimes engage third-party service providers to provide operational support in cognitive centers of these hospitals on our behalf. See "Business—Sales and Marketing—Our Marketing Model—Collaborations with Top Hospitals and Research Institutions" for more details on the roles and arrangements with such service providers. We charge hospitals periodically based on the number of times our products are used by these hospitals to assess and treat patients during the period.

Provision of the System Integral Software Solutions out of Hospitals

Our revenue from provision of the System integral software solutions out of hospitals primarily arises from sales to individual patients who first experience the System in hospitals and then decide to continue to use the System for cognitive training at their own homes. Patients pay us periodic subscription fees in exchange for access to the System software as well as hardware (such as computers or tablets) which we provide during the period of subscription.

Research Projects

We provide the System as well as technical and operational support services to facilitate our customers' cognitive impairment research projects. Customers of our research projects primarily include universities, hospitals and research institutions. We believe that by facilitating our customers' research projects and working closely with medical professionals of our customers, we strengthen our reputation among the medical community, educate professionals on the benefits of adopting our System for assessment and intervention of various types of cognitive impairment, and generally promote the acceptance of our System among hospitals and medical professionals nationwide. Our revenue from research projects primarily arises from data analytics and system development services we offer to universities, hospitals, and research institutions. We charge customers on a cost-plus basis, taking into account the labor costs and the amount of time we devote to each customer, as well as a percentage of markup.

Training Facilitation Service

We offer training facilitation service where we assist our customer and the organizer in performing the organizational and logistical groundwork of training sessions for medical specialists in the cognitive impairment specialty. The customer and organizer is a public institution dedicated to advancing the knowledge and capabilities of physicians and other medical professionals in China. In particular, we are responsible for (i) co-designing the training curriculum, standards, and attendance certificates with the customer; (ii) contacting training session lecturers; (iii) promoting the training sessions among potential attendees; (iv) handling the logistics of setting up the training sessions; (v) providing attendee after-sale services; and (vi) maintaining the necessary website and online portals in relation to the training sessions. Per request from the customer, we charge service fees from attendees. The service fee from each training is based on the type and number of training attendees when they sign up for the training. We record training facilitation service revenue at the completion of each training. We ceased offering training facilitation service in January 2024, and entered into a termination agreement with the customer in April 2024.

Others

Our other revenue primarily relates to the sales of hardware equipment with our System pre-installed and user accounts. The typical selling price for such hardware equipment was approximately RMB3,000, and the typical selling price for each user account is approximately RMB1,000. Customers purchase such integrated equipment with software or user accounts (which enable them to access a web page through their own computers) to utilize the assessment and intervention functions of the System. Sales of user accounts and hardware equipment with the System pre-installed are typically one-off transactions that enable the customers to access the System without limits on usage duration and amount, while in a very limited number of cases we charge a periodic fees during customers' use of the user account. In contrast, under the sales of our System as a software, we charge hospitals based on the number of times the System was used. Sales of hardware equipment with our System pre-installed and user accounts are no longer our prevailing business model as we began the "cognitive center" approach. See "Business—Sales and Marketing—Our Marketing Model—Collaborations with Top Hospitals and Research Institutions" for details, and is only made upon existing customers' requests. This is because we now primarily sell the System as an integral software solution to hospitals and patients under "provision of the System integral software solutions in hospitals" and "provision of the System integral software solutions out of hospitals" business lines above.

Cost of Sales

Cost of sales for provision of the System integral software solutions in hospitals primarily includes (i) operational costs, which arise from third-party service providers we engage to provide hospitals with operational support, such as guidance and technical support on the after-sale utilization and operations of our System, and other services to ensure smooth operations of cognitive centers in hospitals that adopt our System. In 2021, 2022, 2023, and the six months ended June 30, 2023 and 2024, the amount of such operational costs were RMB0.14 million, RMB2.6 million, RMB20.2 million, RMB7.3 million and RMB18.4 million, respectively; and (ii) depreciation of construction costs in relation to renovation of cognitive centers of our customers and the hardware on which the System runs. As advised by Frost & Sullivan, it is not uncommon in the industry to engage service providers to provide such services.

Cost of sales for provision of the System integral software solutions out of hospitals primarily includes (i) operational costs which arise from third-party service providers we engage to provide abovementioned operational support. Because individual patients purchase our System only after they initially use it in hospitals, we are therefore obligated to pay operational service fees in relation to out-of-hospital sales under our agreements with the operational service providers; and (ii) depreciation costs in relation to hardware we rent to patients on which the System runs.

Cost of sales for our research projects service primarily includes staff costs in relation to providing technical and operational support services to customers to facilitate their cognitive impairment research projects. Cost of sales for our training facilitation service include (i) compensation for training session lecturers; and (ii) costs incurred to set up and arrange the logistics for training sessions, such as labor and venue costs. The following table sets forth a breakdown of our cost of sales by types of service during the periods indicated, both in absolute amount and as percentages of total cost of sales.

	For the year ended December 31,						For the six months ended June 30,			
	2021		2022		2023		2023		2024	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Provision of the System integral software solutions										
In hospitals	439	44.1	3,389	42.4	20,825	59.3	8,018	65.1	18,787	68.7
Out of hospitals	130	13.1	625	7.8	2,390	6.8	768	6.2	3,833	14.0
Subtotal	**569**	**57.2**	**4,014**	**50.2**	**23,215**	**66.1**	**8,786**	**71.3**	**22,620**	**82.7**
Research projects	376	37.8	3,958	49.5	9,506	27.1	2,556	20.8	4,747	17.3
Training facilitation service	–	–	–	–	2,194	6.2	746	6.1	–	–
Others	50	5.0	22	0.3	221	0.6	221	1.8	–	–
Total cost of sales	**995**	**100.0**	**7,994**	**100.0**	**35,136**	**100.0**	**12,309**	**100.0**	**27,367**	**100.0**

Gross Profit and Gross Profit Margin

Our gross profit represents our revenue less our cost of sales. The following table sets forth a breakdown of our gross profit and gross profit margin by business segment for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2021		2022		2023		2023		2024	
	Gross Profit	*Gross profit margin*	*Gross Profit*	*Gross profit margin*	*Gross Profit*	*Gross profit margin*	*Gross Profit*	*Gross profit margin*	*Gross Profit*	*Gross profit margin*
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Provision of the System integral software solutions										
In hospitals	528	54.6	686	16.8	20,399	49.5	7,198	47.3	16,495	46.8
Out of hospitals	110	45.8	470	42.9	3,333	58.2	1,133	59.6	6,711	63.6
Subtotal/overall	**638**	**52.9**	**1,156**	**22.4**	**23,732**	**50.6**	**8,331**	**48.7**	**23,206**	**50.6**
Research projects	37	9.0	2,035	34.0	4,784	33.5	2,563	50.1	1,167	19.7
Training facilitation service	–	–	–	–	2,891	56.9	578	43.7	–	–
Others	629	92.6	106	82.8	657	74.8	631	74.1	147	100.0
Total/overall	**1,304**	**56.7**	**3,297**	**29.2**	**32,064**	**47.7**	**12,103**	**49.6**	**24,520**	**47.3**

Other Income

Our other income primarily consists of (i) interest income on bank balances, term deposits and restricted bank deposit; (ii) interest income from rental deposits; (iii) government grants related to research and development activities; and (iv) others. The following table sets forth a breakdown of our other income, both in absolute amount and as percentages of our total other income for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,	
	2021		2022		2023		2023	2024
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(Unaudited)*	*RMB'000*
Interest income on bank balances, term deposits and restricted bank deposit	1,308	88.5	3,812	97.4	1,973	94.9	1,642	378
Interest income from rental deposits	18	1.2	91	2.3	106	5.1	50	54
Government grants related to research and development activities	–	–	–	–	–	–	–	150
Others	152	10.3	12	0.3	–	–	–	–
Total	**1,478**	**100.0**	**3,915**	**100.0**	**2,079**	**100.0**	**1,692**	**582**

Other Gains and Losses, Net

Our other gains and losses, net primarily relates to fair value gains on financial assets at FVTPL. We recorded other losses of RMB3 thousand and other gains of RMB3.1 million, RMB2.3 million, RMB2.1 million and RMB2.1 million in 2021, 2022, 2023, and the six months ended June 30, 2023 and 2024, respectively. We had fair value gains on financial assets at FVTPL of nil, RMB3.2 million, RMB2.7 million, RMB2.7 million and nil in 2021, 2022, 2023, and the six months ended June 30, 2023 and 2024, respectively, which arise from fair value changes of the related financial assets.

Fair Value Changes of Financial Liabilities at FVTPL

Our fair value changes of financial liabilities at FVTPL primarily relates to fair value changes of our redeemable preference shares. Our fair value changes of financial liabilities were RMB623.8 million, RMB385.9 million, RMB165.2 million, RMB163.5 million and RMB0.2 million in 2021, 2022, 2023, and the six months ended June 30, 2023 and 2024, respectively.

Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of (i) market development and service expenses to third-party service providers with connections to local hospitals which help us establish connections with hospitals in more areas in China, and to enhance awareness of DTx as a viable therapy for potential patients. In particular, we incurred RMB0.2 million, RMB0.07 million, RMB7.0 million, RMB6.2 million and RMB2.9 million in conference fees in 2021, 2022, 2023, and the six months ended June 30, 2023 and 2024, respectively; (ii) employee benefits expenses for our selling and distribution staff; (iii) depreciation and amortization expenses in relation to property, plant and equipment used by the selling and distribution department; (iv) share-based payments; and (v) others. The following table sets forth a breakdown of our selling and distribution expenses, both in absolute amount and as percentages of our total selling and distribution expenses for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2021		2022		2023		2023		2024	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Market development and service expenses	1,185	11.0	5,834	48.9	22,430	58.4	13,679	80.4	14,210	56.0
Employee benefits expenses	2,175	20.1	5,011	42.0	4,313	11.2	1,894	11.1	2,714	10.8
Depreciation and amortization	24	0.2	731	6.1	2,599	6.8	975	5.7	1,708	6.7
Share-based payments	7,186	66.5	–	–	8,127	21.2	–	–	6,404	25.2
Others	243	2.2	352	3.0	930	2.4	476	2.8	340	1.3
Total	**10,813**	**100.0**	**11,928**	**100.0**	**38,399**	**100.0**	**17,024**	**100.0**	**25,376**	**100.0**

Administrative Expenses

Our administrative expenses primarily consist of (i) employee benefit expenses for our administrative staff; (ii) restructuring related expenses in relation to tax liabilities that arose from restructuring activities prior to [**REDACTED**]; (iii) depreciation and amortization expenses in relation to property, plant and equipment used by the administrative department; (iv) professional service expenses for certain consulting services and information services to support our business operations; (v) utilities and office expenses in relation to our corporate offices; (vi) share-based payments; and (vii) others. The following table sets forth a breakdown of our administrative expenses, both in absolute amount and as percentage of our total administrative expenses for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2021		2022		2023		2023		2024	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Employee benefit expenses	8,042	30.0	12,053	43.4	13,764	25.3	6,656	44.2	6,688	23.8
Restructuring related expenses	–	–	–	–	5,533	10.2	–	–	–	–
Depreciation and amortization expenses	1,535	5.7	6,065	21.8	6,510	12.0	3,020	20.1	4,018	14.3
Professional service expenses	6,320	23.6	5,311	19.1	6,285	11.5	2,676	17.8	1,569	5.6
Utilities and office expenses	3,635	13.6	3,895	14.0	3,574	6.6	1,331	8.8	1,675	6.0
Share-based payments	7,186	26.8	–	–	17,921	32.9	–	–	14,106	50.1
Others	64	0.3	438	1.7	811	1.5	1,364	9.1	82	0.2
Total	**26,782**	**100.0**	**27,762**	**100.0**	**54,398**	**100.0**	**15,047**	**100.0**	**28,138**	**100.0**

Research and Development Expenses

Our research and development expenses primarily consist of (i) employee benefit expenses for our research and development staff; (ii) depreciation and amortization expenses in relation to property, plant and equipment used by the research and development department; (iii) collaboration expenses incurred with hospitals and CROs with which we collaborate on our R&D projects; (iv) service expenses in relation to purchases of cloud services from third-party vendors for data storage, as well as technical research, management and consulting services; (v) procurement expenses in relation to procurement of miscellaneous testing services, office expenses, patent fees, among others; and (vi) share-based payments. The following table sets forth a breakdown of our research and development expenses, both in absolute amount and as percentage of our total research and development expenses for the periods indicated.

	For the year ended December 31,						For the six months ended June 30,			
	2021		2022		2023		2023		2024	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Employee benefit expenses	25,927	79.1	57,626	85.2	42,011	46.3	21,719	63.2	28,407	44.2
Depreciation and amortization expenses	4	–	4,886	7.2	9,353	10.2	4,524	13.2	5,449	8.5
Collaboration expenses	–	–	264	0.4	7,049	7.8	2,311	6.7	1,300	2.0
Service expenses	614	1.9	2,640	3.9	3,654	4.0	1,740	5.1	4,555	7.1
Procurement expenses	1,217	3.8	2,211	3.3	9,841	10.9	4,077	11.8	9,726	15.2
Share-based payments	4,998	15.2	–	–	18,825	20.8	–	–	14,794	23.0
Total	**32,760**	**100.0**	**67,627**	**100.0**	**90,733**	**100.0**	**34,371**	**100.0**	**64,231**	**100.0**

Finance Costs

Our finance costs primarily consist of (i) interest expense on long-term bond of RMB6.2 million, RMB18.7 million, RMB19.6 million, RMB9.8 million and RMB10.4 million in 2021, 2022, 2023, and the six months ended June 30, 2023 and 2024, respectively; and (ii) interest on lease liabilities of RMB0.2 million, RMB0.6 million, RMB0.4 million, RMB0.2 million and RMB0.2 million during the same periods, respectively.

[**REDACTED**]

PERIOD-TO-PERIOD COMPARISON

Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2024

Revenue

Our revenue increased significantly from RMB24.4 million in the six months ended June 30, 2023 to RMB51.9 million in the six months ended June 30, 2024, primarily due to the following changes in our various types of service:

- Our revenue from provision of the System integral software solutions in hospitals increased significantly from RMB15.2 million in the six months ended June 30, 2023 to RMB35.3 million in the six months ended June 30, 2024, primarily due to (i) an increase in the number of hospitals that purchased the System from 43 in the six months ended June 30, 2023 to more than 100 in the six months ended June 30, 2024, with a customer retention rate (being the percentage of hospitals that purchased our System in 2023 who also purchased our System in the six months ended June 30, 2024) of 97.4%; (ii) an increase in the number of times patients used our System from over 218,600 times in the six months ended June 30, 2023 to approximately 432,500 times in the six months ended June 30, 2024; and (iii) an increase in the amount of assessment prescription by physicians to facilitate their medical diagnosis using the System.

- Our revenue from provision of the System integral software solutions out of hospitals increased significantly from RMB1.9 million in the six months ended June 30, 2023 to RMB10.5 million in the six months ended June 30, 2024, primarily due to (i) a significant increase in the number of patients from approximately 3,300 to over 10,200 over the same periods who selected our System for use in their own homes after initially using the System in hospitals; and (ii) an increase in subscription period for the System by users out of hospitals.

- Our revenue from research projects increased from RMB5.1 million in the six months ended June 30, 2023 to RMB5.9 million in the six months ended June 30, 2024, primarily due to an increase in the average project scale.

Cost of Sales

Our cost of sales increased significantly from RMB12.3 million in the six months ended June 30, 2023 to RMB27.4 million in the six months ended June 30, 2024, primarily due to the following changes in cost of sales in our various types of service:

- Our cost of sales for provision of the System integral software solutions in hospitals increased significantly from RMB8.0 million in the six months ended June 30, 2023 to RMB18.8 million in the six months ended June 30, 2024, primarily due to an RMB10.8 million increase in operational costs incurred by ourselves and with third-party service providers that provide operational support in cognitive centers on our behalf primarily because of an increase in the number of cognitive centers from which we incurred construction costs from 43 in the six months ended June 30, 2023 to more than 100 in the six months ended June 30, 2024, which led to an increase in construction and depreciation costs.

- Our cost of sales for provision of the System integral software solutions out of hospitals increased significantly from RMB0.8 million in the six months ended June 30, 2023 to RMB3.8 million in the six months ended June 30, 2024, primarily due to an increase in the operational costs incurred with third-party service providers that provided operational support.

- Our cost of sales for research projects increased significantly from RMB2.6 million in the six months ended June 30, 2023 to RMB4.7 million in the six months ended June 30, 2024, primarily due to an increase in costs for staff who provided data analytics and system development services to our customers driven by the sizes of and demands by the projects.

Gross Profit and Gross Profit Margin

As a result of the changes in our revenue and cost of sales described above, our gross profit increased significantly from RMB12.1 million in the six months ended June 30, 2023 to RMB24.5 million in the six months ended June 30, 2024.

Our gross profit margin decreased from 49.6% in the six months ended June 30, 2023 to 47.3% in the six months ended June 30, 2024. Such decrease was primarily due to a decrease in gross profit margin of our research projects services from 50.1% in the six months ended June 30, 2023 to 19.7% in the six months ended June 30, 2024.

The gross profit margin from research projects fluctuates from period to period, primarily due to the characteristics of each project, such as (i) the degree to which our customers rely on our System to conduct research projects; (ii) the level of labor intensity of a project; and (iii) case-by-case negotiations with customers. Our gross profit margin tends to be higher for research projects that are more reliant on our System during the research process, and/or that are less labor intensive. The projects we undertook in the six months ended June 30, 2024 were relatively labor intensive due to their nature. In the six months ended June 30, 2024, the salary level of our staff offering research projects services also increased. These factors drove down our gross profit margin for research projects services from the six months ended June 30, 2023 to the six months ended June 30, 2024.

Our gross profit margin for others was 100.0%, because the revenue was related to subscription fees for user accounts for which we did not incur any costs in the six months ended June 30, 2024.

Other Income

Our other income decreased from RMB1.7 million in the six months ended June 30, 2023 to RMB0.6 million in the six months ended June 30, 2024, which is consistent with our overall business plans.

Other Gains and Losses, Net

Our other gains and losses, net remained stable at RMB2.1 million and RMB2.1 million in the six months ended June 30, 2023 and 2024, respectively.

Fair Value Loss of Financial Liabilities at FVTPL

The fair value loss of financial liabilities at FVTPL decreased from RMB163.5 million in the six months ended June 30, 2023 to RMB0.2 million in the six months ended June 30, 2024, primarily due to change in the fair value of redeemable preference shares.

Selling and Distribution Expenses

Our selling and distribution expenses increased significantly from RMB17.0 million in the six months ended June 30, 2023 to RMB25.4 million in the six months ended June 30, 2024, primarily due to (i) an RMB0.5 million increase in market development and service expenses for (a) the engagement of more marketing and promotional services to support our growing business scale; and (b) organization of industry conferences to promote the sales of the System; and (ii) an RMB6.4 million increase in share-based payment expenses driven by the adoption of the [**REDACTED**] Share Award Scheme in July 2023.

Administrative Expenses

Our administrative expenses increased by 87.0% from RMB15.0 million in the six months ended June 30, 2023 to RMB28.1 million in the six months ended June 30, 2024, primarily due to an RMB14.1 million increase in share-based payments driven by the adoption of the [**REDACTED**] Share Award Scheme in July 2023.

Research and Development Expenses

Our research and development expenses increased by 86.9% from RMB34.4 million in the six months ended June 30, 2023 to RMB64.2 million in the six months ended June 30, 2024, primarily due to (i) an RMB14.8 million increase in share-based payments, driven by the adoption of the [**REDACTED**] Share Award Scheme in July 2023; and (ii) an RMB2.8 million increase in service expenses and an RMB5.6 million increase in procurement expenses, driven by an increase in R&D activities we conducted.

Finance Costs

Our finance costs remained relatively stable at RMB10.0 million and RMB10.9 million in the six months ended June 30, 2023 and 2024, respectively.

[REDACTED]

Loss and Total Comprehensive Expense for the Period

As a result of the above, we incurred loss of RMB234.6 million and RMB114.4 million in the six months ended June 30, 2023 and 2024, respectively.

The Year Ended December 31, 2022 Compared to The Year Ended December 31, 2023

Revenue

Our revenue increased significantly from RMB11.3 million in 2022 to RMB67.2 million in 2023, primarily due to the following changes:

- Our revenue from provision of the System integral software solutions in hospitals increased significantly from RMB4.1 million in 2022 to RMB41.2 million in 2023, primarily due to (i) an increase in the number of hospitals that purchased the System from 17 in 2022 to 75 in 2023, with a customer retention rate (being the percentage of hospitals that purchased our System in 2022 who also purchased our System in 2023) of 100.0%; and (ii) an increase in the number of times patients used our System from approximately 113,500 times in 2022 to over 850,000 times in 2023.

- Our revenue from provision of the System integral software solutions out of hospitals increased significantly from RMB1.1 million in 2022 to RMB5.7 million in 2023, primarily due to a significant increase in the number of patients from approximately 1,800 to approximately 4,900 over the same periods who selected our System for use in their own homes after initially using the System in hospitals, as well as an increase in selling price of our out-of-hospital product.

- Our revenue from research projects increased from RMB6.0 million in 2022 to RMB14.3 million in 2023, primarily due to an increase in the average project scale.

- Our revenue from training facilitation service increased from nil in 2022 to RMB5.1 million in 2023, primarily because we began offering training facilitation service in 2023. In 2023, we facilitated 29 training sessions to over 3,100 attendees.

Cost of Sales

Our cost of sales increased significantly from RMB8.0 million in 2022 to RMB35.1 million in 2023, primarily due to the following changes in cost of sales in our various types of service:

- Our cost of sales for provision of the System integral software solutions in hospitals increased significantly from RMB3.4 million in 2022 to RMB20.8 million in 2023, primarily due to (i) an RMB16.1 million increase in operational costs incurred by ourselves and with third-party service providers that provide operational support in cognitive centers on our behalf; and (ii) an increase in the number of cognitive centers from which we incurred construction costs from 14 in 2022 to 48 in 2023, which led to an increase in construction and depreciation costs.

- Our cost of sales for provision of the System integral software solutions out of hospitals increased significantly from RMB0.6 million in 2022 to RMB2.4 million in 2023, primarily due to an increase in the operational costs incurred with third-party service providers that provided operational support.

- Our cost of sales for research projects increased significantly from RMB4.0 million in 2022 to RMB9.5 million in 2023, primarily due to an increase in costs for staff who provided data analytics and system development services to our customers driven by the sizes of and demands by the projects.

- Our cost of sales for training facilitation service was nil and RMB2.2 million in 2022 and 2023, respectively. In 2023, we facilitated 29 training sessions and incurred relevant costs in lecturer compensation, venue and labor.

Gross Profit and Gross Profit Margin

As a result of the changes in our revenue and cost of sales described above, our gross profit increased significantly from RMB3.3 million in 2022 to RMB32.1 million in 2023, primarily due to the significant increase in sales volume of the System and the increase in the number of hospitals and patients that used our System.

Our gross profit margin increased from 29.2% in 2022 to 47.7% in 2023. In particular, our gross profit margin for provision of the System integral software solutions in hospitals increased from 16.8% in 2022 to 49.5% in 2023, and gross profit margin for provision of the System integral software solutions out of hospitals increased from 42.9% in 2022 to 58.2% in 2023, primarily due to a hike in the fee rate of operational costs in 2022 incurred with a third-party service provider which provided guidance and technical support on the after-sale utilization and operations of our System and other services to ensure smooth operations of cognitive centers in hospitals that adopt our System. Under the relevant service agreement, the fee rate is calculated as a percentage of sales of the System integral software solutions made by hospitals to patients in hospitals, and the service provider offered operational support in the hospitals. For sales of the System integral software solutions out of hospitals, the fee rate is calculated as the same percentage of sales made by us to patients who typically use the System first in hospitals and then decide to continue using it for cognitive training at their own homes. Such percentage of one of the service providers was retrospectively revised in September 2022 from floating rates (based on sales volume) to a fixed rate at the high end of the previously floating rate range. The gross profit margins for provision of the System integral software solutions in hospitals and out of hospitals were relatively lower in 2022, primarily because the abovementioned retrospective revision for periods prior to 2022 was all recorded in 2022.

Such adjustment was primarily in relation to changes in the amount of work provided by this service provider in the cognitive centers. In 2021, our cognitive center approach was at an early development and ramp-up stage. Later in 2022, as the cognitive center approach became more well developed and as the operations of existing cognitive centers more ramped up, the number of staff and the amount of work provided by this service provider grew and exceeded the original plan. To ensure sustainable business cooperation, we and this service provider mutually agreed to revise the abovementioned fee rate percentage. In 2022 and 2023, the amount of service fees incurred with such service provider accounted for approximately 5.6% and 6.1% of our total procurement amount, respectively.

Our gross profit margin for research projects remained relatively stable at 34.0% and 33.5% in 2022 and 2023, respectively. The gross profit margin from research projects fluctuates from period to period, primarily due to the characteristics of each project, such as (i) the degree to which our customers rely on our System to conduct research projects; (ii) the level of labor intensity of a project; and (iii) case-by-case negotiations with customers. Our gross profit margin tends to be higher for research projects that are more reliant on our System during the research process, and/or that are less labor intensive.

Other Income

Our other income decreased from RMB3.9 million in 2022 to RMB2.1 million in 2023, primarily due to an RMB1.8 million decrease in interest income on bank balances, term deposits and restricted bank deposit, driven by changes in their average balances in 2022 compared to 2023.

Other Gains and Losses, Net

Our other gains and losses, net decreased from a gain of RMB3.1 million in 2022 to a gain of RMB2.3 million in 2023, primarily due to fair value changes of relevant financial assets at FVTPL.

Fair Value Loss of Financial Liabilities at FVTPL

Our fair value changes of financial liabilities at FVTPL decreased significantly from RMB385.9 million in 2022 to RMB165.2 million in 2023, primarily due to fair value changes of redeemable preference shares.

Selling and Distribution Expenses

Our selling and distribution expenses increased significantly from RMB11.9 million in 2022 to RMB38.4 million in 2023, primarily due to an increase in market development and service expenses driven by the increasing efforts to explore business cooperation opportunities in order to reach more hospitals and other customers and to enhance industry recognition and awareness of our products. The number of hospitals that purchased the System increased from 17 in 2022 to 75 in 2023. The increase is also due to an increase in the number of events and conferences we organized or attended. For example, in April 2023, we co-organized the First Cognitive Impairment Disease Specialty Capability Building Conference in Shaoxing, Zhejiang, during which experts in the fields of brain sciences and DTx gathered to discuss new technology applications in the diagnosis and treatment of cognitive impairment diseases as well as the use of DTx in preventing and treating Alzheimer's disease; partially offset by a decrease in employee benefits expenses driven by reduction in selling and distribution personnel as we shifted some of their responsibilities to the third-party service providers. We also incurred an RMB8.1 million employee share-based payments in 2023.

Administrative Expenses

Our administrative expenses increased significantly, from RMB27.8 million in 2022 to RMB54.4 million in 2023, primarily due to (i) the RMB17.9 million share-based compensation in 2023 as a result of the [**REDACTED**] Share Award Scheme; (ii) an RMB1.7 million increase in employee benefits expenses driven by an increase in the average salary of our administrative staff, social and housing provident fund benefits, severance pays for reduced headcount, and benefits paid to key management personnel; and (iii) an RMB1.0 million increase in professional service expenses driven by an increase in the amount of certain consulting, information and other miscellaneous types of professional services to support our business operations.

Research and Development Expenses

Our research and development expenses increased by 34.2%, from RMB67.6 million in 2022 and RMB90.7 million in 2023, primarily due to (i) the RMB18.8 million share-based payments in 2023 as a result of the [**REDACTED**] Share Award Scheme; (ii) an RMB7.5 million increase in procurement expenses in relation to other miscellaneous purchases for the R&D department; (iii) an RMB6.9 million increase in collaboration expenses, driven by the progress of collaborative R&D projects with CROs; and (iv) an RMB4.5 million increase in depreciation and amortization expenses, driven by the depreciation of right-of-use assets related to our office spaces and the renovation of our R&D facility and purchases of equipment for the R&D department; partially offset by an RMB15.6 million decrease in employee benefit expenses, driven by a decrease in research and development department headcount as certain research projects we undertook had been suspended. These projects were focused on a variety of subjects that were unrelated to the System or cognitive impairment assessment and intervention, such as sleep quality and cognitive health monitoring. We initiated these projects as an attempt to develop a variety of products besides the System that revolve around cognitive functions, and suspended these projects in late 2022 to become more focused on the research and development of the System.

Finance Costs

Our finance costs remained relatively stable at RMB19.2 million and RMB20.2 million in 2022 and 2023, respectively.

[**REDACTED**]

Loss and Total Comprehensive Expense for the Year

As a result of the above, we incurred loss of RMB502.5 million and RMB359.1 million in 2022 and 2023, respectively. We remained at a net loss position in 2023 primarily because (i) our commercialization progress is still at an early stage and we incurred significant operating expenses to operate our business, complete this [**REDACTED**] and develop new markets, technologies and products; and (ii) we continue to be influenced by changes in fair value of financial liabilities at FVTPL until the [**REDACTED**]. We expect to remain at a net loss position in 2024, primarily due to expected significant spending on operating expenses in order to carry out research and development of our products for more indications, to establish sales relationship with more hospitals and expand sales volume, to manage our growth, and to complete this [**REDACTED**].

Year Ended December 31, 2021 Compared to Year Ended December 31, 2022

Revenue

Our revenue increased significantly from RMB2.3 million in 2021 to RMB11.3 million in 2022, primarily due to the following changes in our various types of service:

- Our revenue from provision of the System integral software solutions in hospitals increased significantly from RMB1.0 million in 2021 to RMB4.1 million in 2022, primarily due to (i) an increase in the number of hospitals that purchased our System from six in 2021 to 17 in 2022, with customer retention rate (being the percentage of hospitals that purchased our System in 2021 who also purchased our System in 2022) of 100%; and (ii) the number of times patients use the System increased significantly from approximately 31,500 times in 2021 to approximately 113,500 times in 2022.

- Our revenue from provision of the System integral software solutions out of hospitals increased significantly from RMB0.2 million in 2021 to RMB1.1 million in 2022, primarily due to an increase in the number of patients from approximately 690 to approximately 1,800 over the same year who selected our System for use in their own homes after initially using the System in hospitals.

- Our revenue from research projects increased significantly from RMB0.4 million in 2021 to RMB6.0 million in 2022, primarily due to (i) an increase in the number of completed projects from two in 2021 to 12 in 2022; and (ii) an increase in the average project size.

- Our revenue from other services decreased from RMB0.7 million in 2021 to RMB0.1 million in 2022, primarily because we sold approximately 300 user accounts in 2021, which we ceased to sell since 2022. We also gradually ceased the promotion and sales of integrated equipment in 2022, and only made sales upon existing customers' requests.

Cost of Sales

Our cost of sales increased significantly from RMB1.0 million in 2021 to RMB8.0 million in 2022, primarily due to the following changes in our various types of service:

- Our cost of sales for provision of the System integral software solutions in hospitals increased significantly from RMB0.4 million in 2021 to RMB3.4 million in 2022, primarily due to an increase of RMB2.4 million in operational costs incurred with third-party service providers that provide operational support in cognitive centers on our behalf.

- Our cost of sales for provision of the System integral software solutions out of hospitals increased significantly from RMB0.1 million in 2021 to RMB0.6 million in 2022, primarily due to an RMB0.4 million increase in the operational costs incurred with third-party service providers that provided operational support.

- Our cost of sales for research projects increased significantly from RMB0.4 million in 2021 to RMB4.0 million in 2022, primarily due to an increase in costs for staff who provided data analytics and system development services to our customers.

Gross Profit and Gross Profit Margin

As a result of the changes in our revenue and cost of sales described above, our gross profit increased significantly from RMB1.3 million in 2021 to RMB3.3 million in 2022, primarily due to an increase in sales volume of the System and the increase in the number of hospitals and patients that used our System.

Our gross profit margin decreased from 56.7% in 2021 to 29.2% in 2022. In particular, our gross profit margin for provision of the System integral software solutions in hospitals decreased from 54.6% in 2021 to 16.8% in 2022, and our gross profit margin for provision of the System integral software solutions out of hospitals decreased from 45.8% in 2021 to 42.9% in 2022, primarily due to an increase in the rate of operational costs incurred with third-party service providers. Under the relevant service agreement, the fee rate is calculated as a percentage of sales made by hospitals to patients, and the service provider offered operational support in the hospitals. Such percentage of one of the service providers was retrospectively revised in September 2022 from floating rates (based on sales volume) to a fixed rate at the high end of the previously floating rate range, which contributed to the higher fee rate and the resulting lower gross profit margin in 2022. The result of such increase in fee rate was retrospectively applied to the sales in 2021, and the resulting fees were recorded in 2022 at the time of this increase in fee rate. In 2021 and 2022, the amount of service fees incurred with such service provider accounted for 0.2% and 5.6% of our total procurement amount, respectively. See "—Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2023—Gross Profit and Gross Profit Margin" for details on the circumstances leading to the above change in fee rate percentage.

Our gross profit margin for research projects increased significantly from 9.0% in 2021 to 34.0% in 2022. The gross profit margin fluctuates from period to period, primarily dependent on the characteristics of each project, such as (i) the degree to which our customers rely on our System to conduct research projects; (ii) the amount of staff resources we devote to the project; and (iii) case-by-case negotiations with customers. Our gross profit margin tends to be higher for research projects that are more reliant on our System during the research process, and/or that require fewer human resources.

Other Gains and Losses, Net

Our other losses, net was RMB3 thousand in 2021, and our other gains was RMB3.1 million in 2022. Change was primarily due to changes in fair value of financial assets at FVTPL.

Other Income

Our other income increased significantly from RMB1.5 million in 2021 to RMB3.9 million 2022, primarily due to an increase in interest income on bank balances and term deposits driven by proceeds received from capital injection and proceeds from issuance of long-term bonds and financial liabilities at FVTPL.

Fair Value Changes of Financial Liabilities at FVTPL

Our fair value changes of financial liabilities at FVTPL decreased significantly from RMB623.8 million in 2021 to RMB385.9 million in 2022, primarily due to fair value changes.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 10.3% from RMB10.8 million in 2021 to RMB11.9 million in 2022, primarily due to (i) an RMB2.8 million increase in employee benefits expenses driven by an increase in selling and distribution department headcount; and (ii) an RMB4.6 million increase in market development and service expenses to recruit third-party service providers to help us establish connection with local physicians and hospitals in order to expand the sales of the System. The number of hospitals that purchased our System increased from six in 2021 to 17 in 2022, which we believe was largely driven by our spending on market development and services which helped promote our brand and products among the medical community and establish connection with more hospitals; partially offset by the RMB7.2 million share-based payments in 2021 which did not recur in 2022 because all outstanding shares had been completely vested in 2021.

Administrative Expenses

Our administrative expenses remained relatively stable at RMB26.8 million and RMB27.8 million in 2021 and 2022, respectively. In 2021, we had RMB7.2 million share-based payments which did not recur in 2022 because all outstanding shares had been completely vested in 2021. This was largely offset by (i) an increase in depreciation and amortization expenses as we completed the renovations of certain of our office spaces and as we entered into new leases; and (ii) an increase in employee benefit expenses.

Research and Development Expenses

Our research and development expenses increased significantly from RMB32.8 million in 2021 to RMB67.6 million in 2022, primarily due to (i) an RMB31.7 million increase in employee benefits expenses driven by an increase in research and development department headcount to support our various R&D projects; (ii) an RMB4.9 million increase in depreciation and amortization expenses driven by the newly completed office renovations and purchases of R&D equipment; and (iii) an RMB2.0 million increase in service expenses, driven by an increase in purchase of data storage and technical consulting services to support our R&D projects; partially offset by the RMB5.0 million share-based payments, which did not recur in 2022 because all outstanding shares had been completely vested in 2021.

Finance Costs

Our finance costs increased significantly from RMB6.4 million in 2021 to RMB19.2 million in 2022, primarily due to the long-term bond subscription agreement we entered into in July 2021, which led to significantly more accrued interest expense in 2022 compared to 2021.

Loss and Total Comprehensive Expense for the Year

As a result of the above, we incurred loss and total comprehensive expense for the year of RMB697.8 million and RMB502.5 million in 2021 and 2022, respectively.

DISCUSSION OF CERTAIN SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets forth selected information from our consolidated statements of financial position as of the dates indicated, which have been extracted from the Accountants' Report set out in Appendix I to this Document.

	As of December 31,			As of June 30,
	2021	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total non-current assets	30,598	110,914	92,130	39,072
Total current assets	340,700	307,174	302,724	279,855
Total assets	**371,298**	**418,088**	**394,854**	**318,927**
Total current liabilities	176,939	35,621	392,844	391,120
Net current assets (liabilities)	**163,761**	**271,553**	**(90,120)**	**(111,265)**
Total non-current liabilities	875,641	1,476,710	334,191	339,073
Total liabilities	**1,052,580**	**1,512,331**	**727,035**	**730,193**
Net liabilities	**(681,282)**	**(1,094,243)**	**(332,181)**	**(411,266)**
Total deficits	**(681,282)**	**(1,094,243)**	**(332,181)**	**(411,266)**
Non-controlling interest	**(1)**	**(10)**	**(43)**	**(104)**

NET CURRENT ASSETS/(LIABILITIES)

The following table sets forth our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of June 30,	As of August 31
	2021	**2022**	**2023**	**2024**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Current assets					
Contract costs	457	251	4,094	884	989
Trade and other receivables and prepayments	16,474	19,674	76,053	103,644	121,893
Amounts due from related parties	29	29	–	–	–
Financial assets at FVTPL	–	228,789	–	–	–
Restricted bank deposit	–	–	165,000	119,421	119,421
Term deposits	–	30,180	–	–	–
Bank balances and cash	323,740	28,251	57,577	55,906	11,704
Total current assets	**340,700**	**307,174**	**302,724**	**279,855**	**254,007**
Current liabilities					
Trade and other payables	13,974	17,746	43,261	46,842	45,382
Contract liabilities	450	1,023	3,804	5,837	10,966
Amounts due to related parties	2,364	2,364	–	–	–
Lease liabilities	6,686	7,523	7,927	5,534	7,175
Bank and other borrowings	–	6,965	22,083	16,127	7,112
Deferred Income	–	–	225	993	717
Financial liabilities at FVTPL	153,465	–	315,544	315,787	315,787
Total current liabilities	**176,939**	**35,621**	**392,844**	**391,120**	**387,139**
Net current assets/(liabilities)	**163,761**	**271,553**	**(90,120)**	**(111,265)**	**(133,132)**

Our net current assets increased from RMB163.8 million as of December 31, 2021 to RMB271.6 million as of December 31, 2022, primarily due to (i) an RMB228.8 million increase in financial assets at FVTPL; (ii) an RMB153.5 million settlement of financial liabilities at FVTPL; and (iii) an RMB30.2 million increase in term deposits; partially offset by (i) an RMB295.5 million decrease in bank balances and cash; and (ii) an RMB7.0 million increase in other borrowing.

Our net current assets of RMB271.6 million as of December 31, 2022 changed to net current liabilities of RMB90.1 million as of December 31, 2023. The change was primarily due to (i) an RMB315.5 million increase in current portion of financial liabilities at FVTPL in relation to the issuance of Series A-1 Preferred Shares in July 2023 in exchange for termination of preferential rights of certain investor; and (ii) an RMB228.8 million decrease in financial assets at FVTPL resulting from our redemption of financial products; partially offset by an RMB165.0 million increase in restricted bank deposits.

Our net current liabilities increased to RMB111.3 million as of June 30, 2024 and further increased to RMB133.1 million as of August 31, 2024. The change was primarily due to decreases in our restricted bank deposit and bank balances and cash, partially offset by an increase in trade and other receivables and prepayments. We expect that the automatic conversion of financial liabilities into ordinary shares at [**REDACTED**] and the [**REDACTED**] from this [**REDACTED**] are expected to turn our net current liabilities position into net current asset position.

Bank Balances and Cash

We had current bank balances and cash of RMB323.7 million, RMB28.3 million, RMB57.6 million and RMB55.9 million as of December 31, 2021, 2022, 2023, and June 30, 2024, respectively. The decrease in current bank balances and cash from December 31, 2021 to December 31, 2022 was primarily due to (i) purchases of financial assets at FVTPL (including wealth management products and structured deposits), plant, property and equipment, and long-term bank balances; and (ii) net operating cash outflow during our ordinary course of business for payments to suppliers and employees. Our current bank balances and cash increased from RMB28.3 million as of December 31, 2022 to RMB57.6 million as of December 31, 2023 primarily due to receipt of proceeds from shareholders' capital injection, disposal of financial assets at FVTPL, partially offset by payments in the ordinary course of business. Our current bank balances and cash decreased from RMB57.6 million as of December 31, 2023 to RMB55.9 million as of June 30, 2024. See "—Liquidity and Capital Resources—Cash Flows" for more details.

We have implemented internal policies on the management of bank balances and cash to ensure capital preservation and to match portfolio maturities and duration to approximately mirror anticipated liquidity requirements and working capital needs. We manage the portfolio and evaluate the risk profiles of the types of investments to reduce risk and generate an acceptable risk adjusted return. We constantly monitor our investment portfolio and credit markets to respond appropriately to a significant reduction in credit rating or other indicators.

Trade and Other Receivables and Prepayments

During the Track Record Period, our trade receivables primarily arise from sales to customers on credit under various business lines, including provision of the System integral software solutions in hospitals and out of hospitals, research projects, and certain other sales of hardware, software and user accounts. Our other receivables primarily include (i) value added tax recoverable; (ii) rental and other deposits; (iii) short-term loan receivables in relation to outstanding loans balances due from third parties; (iv) deferred share issue cost for [**REDACTED**] in relation to the part of [**REDACTED**] that will be capitalized upon the completion of the [**REDACTED**]; (v) receivables from third party payment platforms which provide online payment settlement and clearance services; and (vi) refund receivables in relation to proceeds we had paid to a third party with which we had terminated cooperation. Our prepayments primarily include (i) prepayment for purchases of property, plant and equipment; (ii) prepayment for purchases of intangible assets; and (iii) prepayments to suppliers and service providers.

The following table sets forth our trade and other receivables and prepayments as of the dates indicated:

	As of December 31,			As of June 30,
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	1,136	8,422	50,740	78,818
Less: allowance for credit losses	13	63	891	(5,033)
	1,123	**8,359**	**49,849**	**73,785**
Prepayments for purchase of property, plant and equipment	1,126	5	18	763
Prepayments for purchase of intangible assets	–	2,101	101	101
Value added tax recoverable	1,463	364	1,649	952
Prepayments to suppliers and service providers	2,248	7,526	11,742	11,338
Rental deposits	2,202	2,293	3,880	2,933
Other deposits	461	97	107	143
Short-term loan receivables	9,500	–	500	500
Receivables from third party payment platforms	222	864	1,005	3,994
Refund receivable	1,000	1,000	–	–
Deferred share issue costs	–	–	7,689	10,370
Prepayments for [**REDACTED**] expenses	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Others	457	502	1,204	1,269
Total	**19,802**	**23,111**	**78,062**	**106,466**
Analyzed as:				
Non-current	3,328	3,437	2,009	2,822
Current	16,474	19,674	76,053	103,644
Total	**19,802**	**23,111**	**78,062**	**106,466**

Our trade receivables increased from RMB1.1 million as of December 31, 2021 to RMB8.4 million as of December 31, 2022, further to RMB50.7 million as of December 31, 2023, and further to RMB78.8 million as of June 30, 2024, primarily due to an increase in revenue under our various types of service and the resulting increase in sales on credit, as well as because we established new cooperation with research institutions under our research projects business, which led to increased credit period at the initial cooperation stage. We typically grant customers credit terms that range from 30 to 180 days. We consider a number of factors in determining the credit term of a customer, including length of cooperation with the customers and their past payment timeliness. As of the Latest Practicable Date, we did not hold any collateral or other credit enhancements over our trade receivables balance and such receivables are non-interest bearing. We seek to maintain strict control over its outstanding receivables and overdue balances and they are reviewed regularly by the finance department.

Our prepayments for purchase of intangible assets increased from nil as of December 31, 2021 to RMB2.1 million as of December 31, 2022, decreased to RMB0.1 million as of December 31, 2023 and remained relatively stable at RMB0.1 million as of June 30, 2024, primarily due to an RMB2.0 million payment for patent purchase in 2022. The purchased patents include "A Human-computer Interaction Method and System for Multidimensional Assessment of Cognitive Impairment" (一種認知障礙多維評估的人機交互方法及系統, patent number 202210985424.2) and "Modeling Method for Cognitive Task Assessment and Cognitive Task Assessment Method and System" (用於認知任務測評的建模方法、認知任務測評方法及系統, patent number 202211512702.9), and primarily relate to cognitive impairment assessment methods and system. See "Business—Intellectual Property" for details. The patent rights were transferred to us in May 2023.

Our prepayments to suppliers and service providers increased significantly from RMB2.2 million as of December 31, 2021 to RMB7.5 million as of December 31, 2022 and further to RMB11.7 million as of December 31, 2023, primarily due to an increase in the amount of prepaid cloud and technical services as well as certain prepaid research services which were incurred to support our ongoing R&D activities and expanding product portfolio. Our prepayment to suppliers and service providers remained relatively stable at RMB11.3 million as of June 30, 2024.

Our short-term loan receivables relate to (i) an RMB9.5 million loan which was completely repaid in 2022; and (ii) an RMB0.5 million loan made to a non-executive employee.

Deferred share issue costs of RMB7.7 million as of December 31, 2023 and RMB10.4 million as of June 30, 2024 are primarily related to [**REDACTED**] expenses that will be capitalized upon the completion of [**REDACTED**].

During the Track Record Period and up to the Latest Practicable Date, we did not have any material dispute or disagreement with our customers in relation to the timing, amounts of billing or the collection of our trade and other receivables.

Receivables from third party payment platforms represents amount to be settled by third-party payment platforms, such as WeChat and Alipay, with whom users of our System integral software solutions out of hospitals settle payments for their purchases increased from RMB1.0 million as of December 31, 2023 to RMB4.0 million as of June 30, 2024, primarily due to the significant sales of the System integral software solutions out of hospitals in the six months ended June 30, 2024.

In determining impairment of trade receivables, we conduct regular reviews of aging analysis and evaluate collectivity, taking into account of the historical loss patterns of our customers.

The following table sets forth our average trade receivables turnover days during the periods indicated.

	For the year ended December 31,			For the six months ended June 30,
	2021	2022	2023	2024
Average trade receivables turnover days(1)	114.6	153.3	160.7	227.2

Note:

(1) Trade receivable turnover days for a period equals the arithmetic mean of the beginning and ending trade receivable balances divided by revenue for that period and multiplied by the number of days in that period.

The average trade receivables turnover days were 114.6 days in 2021, 153.3 days in 2022, 160.7 days in 2023 and 227.2 days for the six months ended June 30, 2024. The increase in average trade receivables turnover days from 2021 to the six months ended June 30, 2024 was primarily due to the significant increase in trade receivables in 2022 as we began serving more cognitive centers and delayed payments from scientific research projects. Hospitals with which we establish new sales relationship typically have longer payment time compared to existing ones. We intend to continue to develop our relationships with these new hospitals and enhance our receivable settlement efforts to drive down our trade receivable turnover days.

The following table sets forth the ageing analysis of trade receivables based on the invoice date and net of loss allowance as of the dates indicated:

	As of December 31,			As of June 30,
	2021	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables				
0~90 days	546	5,594	22,906	20,062
91~180 days	303	2,449	10,577	21,587
181~270 days	88	221	5,093	19,141
271~360 days	10	61	6,370	5,673
over 1 year	176	34	4,903	7,322
Total	**1,123**	**8,359**	**49,849**	**73,785**

In order to minimize the credit risk, our Board of Directors has overall responsibility for the establishment and oversight of our risk management framework. The finance department is responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we perform impairment assessment under expected credit loss model on trade balances individually or based on provision matrix. Assessments are done based on our historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

Our Directors confirm that there is no material recoverability issues with respect to our trade receivables, and the provision for allowance for credit losses is adequate under the circumstances. Several hospital customers typically go through a lengthy internal approval process to pay service fees, and we have not received any notifications that such customers would not be able to make such payment. With respect to hospital customers that involve the Operational Service Provider, pursuant to the cooperation agreement between us and the Operational Service Provider, we are entitled to demand the Operational Service Provider to request and collect payment for the System from the hospitals on our behalf from time to time. Further, the cooperation agreements between the Operational Service Provider and the hospital customers set forth the payment and settlement arrangements between the hospitals to the Operational Service Provider, and provide that a breaching party (including breach of obligation to timely make payments by the hospitals) is liable to the non-breaching for any damages arising from breaches. In addition, the current amounts of impairment loss under ECL model, net of reversal of RMB0.01 million, RMB0.05 million, RMB0.9 million, RMB0.2 million and RMB4.1 million recognized in 2021, 2022, 2023, and the six months ended June 30, 2023 and 2024, respectively, have reflected our consideration of recoverability issue, which we believe is sufficient in light of the relevant accounting policy information and the abovementioned cooperation agreements between the Operational Service Provider and us and cooperation agreements between the Operational Service Provider and the hospitals.

As of August 31, 2024, RMB14.0 million, representing 19.0% of the trade receivables outstanding as of June 30, 2024 were subsequently settled.

Financial Assets at FVTPL

Financial assets at FVTPL primarily consists of short-term Level II structured deposits and wealth management products we purchased from reputable commercial banks in China. Our financial assets at fair value through profit or loss increased from nil as of December 31, 2021 to RMB228.8 million as of December 31, 2022, primarily due to new purchases or redemptions of such financial assets, as well as fluctuations of their fair values. Our financial assets at fair value through profit or loss decreased from RMB228.8 million as of December 31, 2022 to nil as of December 31, 2023 and remained nil as of June 30, 2024, primarily due to the complete disposal of financial assets at FVTPL in 2023.

Our Investment Policy in Wealth Management and Structured Products

We have adopted the Financial Internal Control Policy which prohibits investments in financial management or investment portfolios with a maturity of more than 12 months and that we will only make low-risk investments.

We have adopted the Major Matters Decision Making Policy, which covers overseas investment and entrusted financial management. The Major Matters Decision Making Policy provides that if the transaction involves amounts exceeding a prescribed proportionate threshold of our assets, income or net profit, the transaction shall be submitted to the Board of Directors for review. The policy also provides that the type of matters specified by the laws and regulations of the SFC and the HKEx as requiring board review for listed companies should also be submitted to our Board for review. In addition, matters that do not meet the criteria for Board review are subject to the approval of the Chairman of the Board or the CEO in accordance with their respective authorities.

Furthermore, we have adopted the Money Market Fund Management Policy, which requires us to strengthen our oversight of the management of money market funds. The finance department is responsible for the day-to-day management of money market funds, and the internal audit department is responsible for supervision. We have adopted the Information Disclosure Management Policy, which specifies the responsibilities of information disclosure management, the types of information to be disclosed, and the procedures for disclosing information. In addition, any of our investment in wealth management or structured products will be subject to compliance with Chapter 14 of the Listing Rules.

Trade and Other Payables

Our trade and other payables primarily consist of (i) trade payables in relation to certain operational support, promotional and marketing services; (ii) accrued salaries and other allowances; (iii) refund payables arising from termination of cooperation with certain third-party distributors; (iv) deposits for the hardware for provision of the System integral software solutions out of hospitals arising from deposits paid by patients for the hardware (computers and/or tablets) we provide them; (v) payables for acquisition of property, plant and equipment in relation to renovations of our corporate office, purchase of fixed assets, and purchase of patent rights; and (vi) accrued [**REDACTED**] expenses and accrued share issue costs for [**REDACTED**] in relation to this [**REDACTED**].

The following table sets forth our trade and other payables as of the dates indicated.

	As of December 31,			As of June 30,
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	159	1,761	8,251	7,476
Accrued salaries and other allowances	6,424	4,747	8,927	6,308
Refund payables	6,422	6,422	5,222	3,743
Deposits for the hardware for provision of the System integral software solutions out of hospitals	136	444	1,879	4,827
Payables for acquisition of property, plant and equipment	146	1,850	670	1,552
Accrued [**REDACTED**] expenses and share issue costs	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other tax payables	471	1,036	2,761	1,573
Payables for research and development activities	–	–	1,026	1,641
Others	216	1,486	1,903	969
Total	**13,974**	**17,746**	**43,261**	**46,842**

Our trade payables increased significantly from RMB0.2 million as of December 31, 2021 to RMB1.8 million as of December 31, 2022 and further to RMB8.3 million as of December 31, 2023, primarily due to the expansion of our business scale and in the amount of operational support, promotional and marketing services we engaged to ensure smooth operations of the System in cognitive centers of our hospital customers and efforts to connect with and sell our products to more hospitals. Our trade payables then decreased from RMB8.3 million as of December 31, 2023 to RMB7.5 million as of June 30, 2024, primarily due to settlement of our payment obligations.

Our accrued salaries and other allowances decreased from RMB6.4 million as of December 31, 2021 to RMB4.7 million as of December 31, 2022, primarily due to a decrease in year-end bonuses for our staff and a decrease in our overall headcount, especially in selling and distribution department as we further streamlined our management efficiency. Our accrued salaries and other allowances subsequently increased from RMB4.7 million as of December 31, 2022 to RMB8.9 million as of December 31, 2023, primarily due to accrued but unpaid salaries for one of our employees, as well as accrued salaries and other allowances from certain newly founded subsidiaries.

Our accrued salaries and other allowances then decreased from RMB8.9 million as of December 31, 2023 to RMB6.3 million as of June 30, 2024, primarily due to payment of year-end bonus in the six months ended June 30, 2024. Our accrued [**REDACTED**] expenses and share issue costs were [**REDACTED**], [**REDACTED**], RMB[**REDACTED**], and RMB[**REDACTED**] as of December 31, 2021, 2022, 2023, and June 30, 2024, were incurred in connection with services we engaged and costs incurred in connection with this [**REDACTED**].

Our refund payables remained at RMB6.4 million as of December 31, 2021 and 2022, and decreased to RMB5.2 million and RMB3.7 million as of December 31, 2023 and June 30, 2024. The decreases were due to our payment of refunds. In 2020, we engaged several distributors to market the System in order to leverage their sales network and connections with potential customers in their respective regions. We received prepayments for our product pursuant to these cooperations, which were terminated before 2021 as we decided to pursue the cognitive center approach. See "Business—Sales and Marketing—Our Marketing Model—Collaborations with Top Hospitals and Research Institutions" for details. The relevant third-party distributors did not request immediate repayment upon termination of our contracts with them primarily because (i) the termination in 2020 was the result of friendly mutual consent; (ii) the third-party distributors had sold a portion of our products in their inventory and had established solid and trusting relationships with us before the termination of our cooperations; and (iii) we are exploring other purchase and sale relationship with these distributors in the future, leveraging their business relationships in the industry. The relevant termination agreements with the third-party distributors were silent as to the timing of the repayments from us. We do not have any relationships with these third-party distributors other than engaging them as distributors before 2021.

The following table sets forth our average trade payables turnover days during the periods indicated.

	For the year ended December 31,			For the six months ended June 30,
	2021	**2022**	**2023**	**2024**
Average trade payables turnover days(1)	29.1	43.8	52.0	52.3

Note:

(1) Trade payable turnover days for a period equals the arithmetic mean of the beginning and ending trade payables balances divided by cost of sales for that period and multiplied by the number of days in that period.

The average trade payables turnover days were 29.1 days in 2021, 43.8 days in 2022, and 52.0 days in 2023. The increase in average trade payables turnover days from 2021 to 2023 was primarily due to longer payment settlement periods with respect to suppliers. The average trade payables turnover days remained relatively stable at 52.3 days in the six months ended June 30, 2024.

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

	As of December 31,			As of June 30,
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables				
within one year	159	1,669	6,514	7,476
over one year	–	92	1,737	–
Total	**159**	**1,761**	**8,251**	**7,476**

As of August 31, 2024, RMB5.5 million, representing 73.4% of the trade payables as of June 30, 2024, were subsequently settled.

Contract Liabilities

Our contract liabilities primarily relate to payments received from customers of provision of the System integral software solutions out of hospitals, research projects, and other products or services (in relation to sales of hardware equipment, software and user accounts) for which we had not fulfilled the relevant contract obligations. Our contract liabilities increased significantly from RMB0.7 million as of December 31, 2021 to RMB1.5 million as of December 31, 2022, further to RMB3.9 million as of December 31, 2023 and further to RMB5.9 million as of June 30, 2024, primarily due to an increase in sales of products and services to more hospitals, patients, and third-party research institutions.

The following table sets forth a breakdown of our contract liabilities by types of services as of the dates indicated.

	As of December 31,			As of June 30,
	2021	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Research projects	581	424	967	854
Provision of the System integral software solutions in hospitals	–	–	401	279
Provision of the System integral software solutions out of hospitals	68	705	2,254	4,547
Other sales	84	321	308	198
	733	1,450	3,930	5,878

As of August 31, 2024, RMB1.3 million, representing 22.8% of the contract liabilities as of June 30, 2024 were subsequently recognized as revenue.

Net Liabilities

Our net liabilities increased from RMB681.3 million as of December 31, 2021 to RMB1,094.2 million as of December 31, 2022, primarily due to an RMB502.5 million loss and total comprehensive expense for the year in 2022, partially offset by an RMB89.5 million capital injection from our financing transactions. Our net liabilities decreased from RMB1,094.2 million as of December 31, 2022 to RMB332.2 million as of December 31, 2023, primarily due to (i) an RMB1,012.3 million reclassification from financial liabilities at FVTPL to equity when preferential rights for certain [**REDACTED**] investors were terminated; and (ii) an RMB64.0 million capital injection from our financing transactions in 2023, which is partially offset by an RMB359.1 million in loss and total comprehensive expense for the year. Our net liabilities increased from RMB332.2 million as of December 31, 2023 to RMB411.3 million as of June 30, 2024, primarily due to an RMB114.4 million loss and total comprehensive expense for the period, partially offset by an RMB35.3 million recognition of equity settled shared-based payments.

Upon [**REDACTED**], our preferred shares will transfer from liabilities to equity as a result of the automatic conversion into ordinary shares at [**REDACTED**]. Further, we expect this [**REDACTED**] (including the [**REDACTED**] received therefrom and equity issued) to contribute to the conversion from net liabilities position into net assets position.

LIQUIDITY AND CAPITAL RESOURCES

Overview

During the Track Record Period, we primarily relied on capital contribution from shareholders, issuance of redeemable preference shares and long-term bonds as major sources of liquidity.

With respect to cash management, our objective is to optimize liquidity to secure a stable return for Shareholders in a risk-averse manner. Specifically, we have policies in place to monitor and manage the settlement of trade receivables. When determining the credit term of a customer, we consider a number of factors, including length of past cooperation and its past payment timeliness. To monitor the settlement of our trade receivables and avoid credit losses, we conduct annual review of each customer's financial performance, which is primarily based on the amount and aging of the trade receivables due from such customer in the respective period.

Cash Flows

The following table sets forth our cash flows for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2021	**2022**	**2023**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loss before tax	(697,838)	(502,461)	(359,116)	(234,570)	(114,389)
Net cash used in operating activities	(49,206)	(100,680)	(136,872)	(66,006)	(75,527)
Net cash (used in) from investing activities	(21,476)	(334,462)	102,553	11,166	86,002
Net cash from (used in) financing activities	393,609	139,647	63,527	57,199	(12,190)
Net increase/(decrease) in cash and cash equivalents	322,927	(295,495)	29,208	2,359	(1,715)
Cash and cash equivalents at the beginning of the year/period	813	323,740	28,251	28,251	57,577
Cash and cash equivalents at the end of the year/period	323,740	28,251	57,577	30,871	55,906

Operating Activities

For the six months ended June 30, 2024, our net cash used in operating activities was RMB75.5 million, which was primarily attributable to loss before tax of RMB114.4 million, adjusted for non-cash and non-operating items. Positive adjustments for non-cash and non-operating items primarily include recognition of equity settled share-based payments of RMB35.3 million; finance costs of RMB10.9 million, depreciation of right-of-use assets of RMB3.9 million, and depreciation of property, plant and equipment of RMB8.6 million; and negative adjustments for non-cash and non-operating items primarily include gain on re-estimated repayments of long-term bond of RMB2.2 million, and interest income of RMB0.4 million. The amount was then adjusted by changes in working capital, primarily including increase in trade and other receivables and prepayments of RMB30.1 million and increase in trade and other payables of RMB1.3 million.

In 2023, our net cash used in operating activities was RMB136.9 million, which was primarily attributable to loss before tax of RMB359.1 million, adjusted for non-cash and non-operating items. Positive adjustments for non-cash and non-operating items primarily include fair value loss of financial liabilities at FVTPL of RMB165.2 million, recognition of equity-settled share-based payments of RMB44.9 million, finance costs of RMB20.2 million, depreciation of property, plant and equipment of RMB13.8 million and depreciation of right-of-use assets of RMB7.0 million; and negative adjustments for non-cash and non-operating items include fair value gains on financial assets at FVTPL of RMB2.7 million and interest income of RMB2.1 million. The amount was then adjusted by changes in working capital, primarily including an increase in trade and other receivables and prepayments of RMB48.0 million and an increase in trade and other payables of RMB23.4 million.

In 2022, our net cash used in operating activities was RMB100.7 million, which was primarily attributable to loss before tax of RMB502.5 million, adjusted for non-cash and non-operating item. Positive adjustments for non-cash and non-operating items primarily include fair value loss of financial liabilities at FVTPL of RMB385.9 million, finance costs of RMB19.2 million, depreciation of right-of-use assets of RMB6.6 million, and depreciation of property, plant and equipment of RMB5.7 million; and negative adjustments for non-cash and non-operating items include interest income of RMB3.9 million and fair value gains on financial assets at FVTPL of RMB3.2 million. The amount was then adjusted by changes in working capital, primarily including increase in trade and other receivables and prepayments of RMB11.8 million and increase in trade and other payables of RMB2.1 million.

In 2021, our net cash used in operating activities was RMB49.2 million, which was primarily attributable to loss before tax of RMB697.8 million, adjusted for non-cash and non-operating item. Positive adjustments for non-cash and non-operating items primarily include fair value loss of financial liabilities at FVTPL of RMB623.8 million, recognition of equity-settled share-based payment of RMB19.4 million, and finance costs of RMB6.4 million and negative adjustments for non-cash and non-operating items include interest income of RMB1.3 million. The amount was then adjusted by changes in working capital, primarily including increase in trade and other receivables and prepayments of RMB6.0 million and increase in trade and other payables of RMB4.9 million.

We intend to implement the following measures in order to improve our operating cash outflows position. See "Business—Business Sustainability and Commercialization Strategies" for more details.

- *Further commercialization.* We intend to continue to help hospitals establish cognitive centers, and fully capitalize on the commercialization potential of our System in new cognitive centers of these hospitals. In particular, we became the first organizer of a project initiated by the NHC under which we are tasked with helping to establish cognitive centers in over 2,100 public hospitals across China and promoting the development of cognitive impairment DTx market in China over the next five years.

- *Brand and product awareness.* We intend to recruit more talents with academic and professional experiences in the field of cognitive impairment DTx to expand our commercialization team and enhance the team's academic and marketing capabilities.

- *Product innovation and indication expansion.* We plan to accelerate the development, registration, and commercialization processes to expand our System to more cognitive impairment indications by developing upgraded versions of the System or developing new products. As of the Latest Practicable Date, our System had several other indications under various stages of preclinical and clinical development. We also have four other products with regulatory approvals, and six additional product candidates under different stages of preclinical and clinical development or registration process.

Investing Activities

In the six months ended June 30, 2024, our net cash from investing activities was RMB86.0 million, primarily due to withdrawal of restricted bank deposit of RMB95.0 million; partially offset by purchases of property, plant and equipment of RMB9.9 million.

In 2023, our net cash from investing activities was RMB102.6 million, primarily due to (i) proceeds from disposal of financial assets at FVTPL of RMB790.5 million; (ii) disposal of term deposits with original maturity over three months of RMB122.0 million; and (iii) disposal of restricted bank deposit of RMB200.1 million; partially offset by (i) purchases of financial assets at FVTPL of RMB559.0 million; and (ii) placement of restricted bank deposit for the purchase of financial assets at FVTPL of RMB414.1 million.

In 2022, our net cash used in investing activities was RMB334.5 million, primarily due to (i) purchases of financial assets at FVTPL of RMB1,261.1 million; (ii) placements of term deposits with original maturity over three months of RMB102.0 million; and (iii) purchases of property, plant and equipment of RMB16.4 million; partially offset by (i) proceeds from disposal of financial assets at FVTPL of RMB1,035.5 million; and (ii) repayment of loan to a third party of RMB9.5 million.

In 2021, our net cash used in investing activities was RMB21.5 million, primarily due to (i) purchases of property, plant and equipment of RMB10.8 million; (ii) loan to third parties of RMB9.5 million; and (iii) payments for rental deposits of RMB2.2 million; partially offset by interest received of RMB1.3 million.

Financing Activities

In the six months ended June 30, 2024, we had RMB12.2 million of net cash flows used in financing activities, primarily due to (i) repayment of bank borrowings of RMB6.0 million; (ii) repayment of lease liabilities of RMB4.5 million and (iii) payments of share issue costs of RMB1.2 million.

In 2023, we had RMB63.5 million of net cash flows from financing activities, primarily due to capital injection of RMB64.0 million, partially offset by repayments of lease liabilities of RMB7.9 million.

In 2022, we had RMB139.6 million of net cash flows from financing activities, primarily due to (i) capital injection of RMB89.5 million; and (ii) proceeds from issue of financial liabilities at FVTPL of RMB50.0 million; partially offset by repayments of lease liabilities of RMB6.2 million.

In 2021, we had RMB393.6 million of net cash flows from financing activities, primarily due to (i) proceeds from issue of long-term bonds of RMB300.0 million; (ii) capital injection of RMB63.7 million; and (iii) proceeds from issue of financial liabilities at FVTPL of RMB50.0 million, partially offset by (i) payment of financial advisory fees in relation to long-term bond of RMB15.0 million; and (ii) repayments to related parties of RMB4.1 million.

CASH OPERATING COSTS

The following table sets forth key information relating to our cash operating costs (unaudited) for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2021	2022	2023	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Research and Development Costs					
Research and Development Costs for Core Product					
Staff costs	25,927	53,632	39,293	20,041	26,484
Service expenses	702	3,426	3,418	1,605	4,247
Procurement expenses	391	1,979	8,388	2,304	4,309
Collaboration expenses	14	4,707	3,523	1,035	1,174
Research and Development Costs for Other Product Candidates					
Staff costs	–	3,993	2,718	1,679	1,923
Service expenses	–	251	261	280	349
Procurement expenses	–	120	595	205	314
Collaboration expenses	–	–	–	–	–
Workforce Employment	10,216	17,063	18,076	8,550	9,401
Product Marketing	2,010	5,570	23,260	14,186	14,551
Direct Production Cost(1)	554	5,135	28,031	11,492	26,516
Non-income Taxes, Royalties and Other Governmental Charges	–	–	–	–	–
Contingency Allowances	–	–	–	–	–
Other Significant Costs	–	–	–	–	–

Note:

(1) Represents cash expenditures under our cost of sales, which primarily include cash paid to (i) third-party service providers we engage to provide operational support to cognitive centers; (ii) research institutions and hospitals for costs in relation to research projects; and (iii) hardware suppliers to serve customers that purchased our hardware equipment which preinstalls our System.

WORKING CAPITAL

The Directors are of the opinion that, taking into account of the following financial resources available to us described below, we have sufficient working capital to cover at least 125% of our costs, including R&D expenses, selling and distribution expenses, administrative expenses, finance costs and other expenses for at least the next 12 months from the date of this Document:

- our future operating cash flows;
- our cash and cash equivalents as of the Latest Practicable Date;
- available equity and debt financing; and
- the estimated net [**REDACTED**] from the [**REDACTED**].

Our cash burn rate refers to the average monthly (i) net cash used in operating activities, which includes research and development expenses, and (ii) capital expenditures. We had bank balances and cash of RMB55.9 million as of June 30, 2024. We estimate that we will receive net [**REDACTED**] of approximately HK$[**REDACTED**] after deducting the [**REDACTED**] fees and expenses payable by us in the [**REDACTED**], assuming no [**REDACTED**] is exercised and assuming an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**], being the mid-point of the indicative [**REDACTED**] range of HK$[**REDACTED**] to HK$[**REDACTED**] per [**REDACTED**] in this Document. Assuming an average cash burn rate going forward of two times the level in 2023, we estimate that our cash and cash equivalents, the current portion of restricted bank deposits and the current portion of financial assets as of June 30, 2024 will be able to maintain our financial viability for at least [**REDACTED**] or, if we also take into account the estimated net [**REDACTED**] from the [**REDACTED**], for at least [**REDACTED**]. We will continue to monitor our cash flows from operations closely and expect to raise our next round of financing.

INDEBTEDNESS

Save as disclosed below, we did not have any bank and other loan, or any loan capital issued and outstanding or agreed to be issued, bank overdraft, borrowing or similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases or finance lease commitments, guarantees or other material contingent liabilities as of the Latest Practicable Date for our indebtedness statement (being August 31, 2024). Our Directors confirm that there has not been any material change in our indebtedness since August 31, 2024 up to the date of this document. The following table sets forth the breakdown of our financial indebtedness as of the dates indicated:

	As of December 31,			As of June 30,	As of August 31,
	2021	**2022**	**2023**	**2024**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial liabilities at FVTPL	726,746	1,162,632	315,544	315,787	315,787
Bank and other borrowings	–	6,965	22,083	16,127	7,112
Lease liabilities	17,566	11,319	12,554	6,659	10,975
Long-term bond	291,197	309,855	329,438	337,640	336,778
Amounts due to related parties	2,364	2,364	–	–	–
Total	**1,037,873**	**1,493,135**	**682,777**	**676,213**	**670,652**

Financial Liabilities at FVTPL

Our financial liabilities at FVTPL primarily represent paid-in capital with preferential rights (the "**Preference Shares**") subscribed by various series of [**REDACTED**] investors, and an obligation under Series B Financing (the "**Obligation**"). The Preference Shares contain redemption features and other embedded derivatives, and were recorded as financial liabilities at FVTPL on initial recognition. Fair value changes of Preference Shares are recognized to profit or loss except for the portion attributable to credit risk change. The fair value of the Preference Shares as of December 31, 2021, 2022, 2023, June 30, 2024 and August 31, 2024 was valued with the assistance of an independent qualified professional valuer with appropriate qualifications. Discounted cash flow model was used.

In July 2023, the preferential rights related to the Preference Shares held by all investors of Series Angel, Series A and Series B, except for one of the Series A investors, were terminated. After the termination, the Preference Shares whose special rights were terminated met the definition of equity and were accordingly reclassified from financial liabilities at FVTPL into equity, resulting in an increase of paid-in capital of RMB10.1 million and an increase of capital reserve of RMB1,002.2 million. In July 2023, we terminated preferential rights of certain investor in exchange for issuance of Series A-1 Preferred Shares, which led to the elimination of the RMB1,162.6 million non-current financial assets at FVTPL as of December 31, 2022, and the RMB315.5 million of current financial liabilities at FVTPL as of December 31, 2023 in relation to Series A-1 Preferred Share issuance. See Note 27 to the Accountants' Report set out in Appendix I to this Document for more details on the Preference Shares, the valuation process, and the termination of special rights.

Borrowings

In April 2024, we repaid the bank loan of RMB6.0 million that carried an interest rate of 5.50% per year. In August 2024, we repaid the bank loan of RMB9.0 million that carried an interest rate of 5.50% per year.

In August 2023, we obtained a bank borrowing of RMB9.0 million which will mature in August 2024 and carries an interest rate of 5.50% per year. In October 2023, we obtained a bank borrowing of RMB6.0 million which will mature in April 2024 and carries an interest rate of 5.50% per year.

In December 2022, our subsidiary in the U.S. incurred an interest-free loan with a principal amount of US$1.0 million, which is due after the FDA approves our Section 510(k) registration for our Cognitive Impairment Assessment Software and Cognitive Impairment Treatment Software in the U.S. Changes in balance from December 31, 2022 to December 31, 2023 was due to fluctuations in foreign exchange rate between U.S. dollars and RMB.

As of August 31, 2024, we did not have any unutilized banking facilities.

The above borrowings do not contain any covenants on us which may affect our ability to undertake additional debt or equity financing.

Lease Liabilities

Our lease liabilities was RMB17.6 million, RMB11.3 million, RMB12.6 million, and RMB6.7 million as of December 31, 2021, 2022, 2023, and June 30, 2024, respectively. The lease liabilities are measured at the present value of the lease payments that are not yet paid. The incremental borrowing rates applied to lease liabilities range from 4.00% to 4.85% per annum, 4.00% to 4.85% per annum, 4.00% to 4.85% per annum, 4.00% to 4.85% per annum and 4.00% to 4.85% per annum as of December 31, 2021, 2022, 2023, June 30, 2024 and August 31, 2024, respectively.

Long-term Bond

In July 2021, we entered into a long-term bond agreement with a third-party fund with an aggregate subscription amount of RMB300.0 million, an annual interest rate of 6%, and will mature on the fifth anniversary of a qualified [**REDACTED**] of our Group. The lender fund had a conversion option of no more than RMB100.0 million before the submission of the [**REDACTED**] with no later than December 31, 2025 at a conversion price to be further negotiated between the two parties. In June 2023, we entered into a supplementary contract with the lender fund which cancelled the abovementioned conversion rights. The fair value of the abovementioned conversion right was considered minimal as there was no specific conversion price. See Note 23 to the Accountants' Report set out in Appendix I to this Document for more details.

Amounts Due to Related Parties

See "—Related Party Transactions" for details.

Except as disclosed above, as of the Latest Practicable Date, we did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, any guarantees or other material contingent liabilities. Our Directors confirm that we did not have any material covenants on our outstanding debt, any default in payment of borrowings or breach of covenants, or, other than disclosed above, any material changes in our indebtedness position during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that our Group did not experience any difficulty in obtaining bank loans and other borrowings, default in payment of bank loans and other borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

CAPITAL EXPENDITURES

We make capital expenditures to expand our operations, upgrade our property, plant and equipment and facilities, and increase our operating efficiency. The following table sets forth our capital expenditures for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,
	2021	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Purchase of property, plant and equipment	9,819	19,226	14,773	10,002
Purchase of right-of-use assets	18,657	–	10,286	–
Purchase of intangible assets	24	559	4,153	267
Total	**28,500**	**19,785**	**29,212**	**10,269**

We expect to incur capital expenditures in 2024 primarily in relation to, among others, purchase of property, plant and equipment. We expect to finance such capital expenditures through a combination of operating cash flows, net [**REDACTED**] from the [**REDACTED**] and bank and other borrowings. We may adjust our capital expenditures for any given period according to our development plans or in light of market conditions and other factors we believe to be appropriate.

CONTRACTUAL OBLIGATIONS

Capital Commitments

As of December 31, 2021, 2022, 2023, and June 30, 2024, we had capital commitments of RMB8.2 million, RMB10.2 million, RMB0.7 million, and RMB0.4 million, respectively, primarily in connection with expenditures in respect of the acquisition of equipment and machineries and leasehold improvements.

CONTINGENT LIABILITIES

As of December 31, 2021, 2022, 2023, and June 30, 2024, we did not have any contingent liabilities. Our Directors confirm that as of the Latest Practicable Date, there had been no material changes or arrangements to our contingent liabilities.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, aside from our capital commitments as disclosed above, we had not entered into any off-balance sheet transactions.

KEY FINANCIAL RATIOS

The following table sets forth the key financial ratios of our Group for the periods or as of the dates indicated:

	For the year ended/ As of December 31,			For the six months ended/As of June 30,
	2021	**2022**	**2023**	**2024**
Gross margin	56.7%	29.2%	47.7%	47.3%
Current ratio(1)	1.9	8.6	0.8	0.7
Average trade payables turnover days(2)	29.1	43.8	52.0	52.3
Average trade receivables turnover days(3)	114.6	153.3	160.7	227.2

Notes:

(1) Current ratio equals current assets divided by current liabilities as of the end of the year/period.

(2) Trade payable turnover days for a period equals the arithmetic mean of the beginning and ending trade payables balances divided by cost of sales for that period and multiplied by the number of days in that period.

(3) Trade receivable turnover days for a period equals the arithmetic mean of the beginning and ending trade receivable balances divided by revenue for that period and multiplied by the number of days in that period.

Our gross margin was 56.7%, 29.2%, 47.7%, and 47.3% in 2021, 2022, 2023, and the six months ended June 30, 2024, respectively. See "—Period-to-Period Comparison" for more details.

Our current ratio increased from 1.9 as of December 31, 2021 to 8.6 as of December 31, 2022, primarily due to the significant decrease of the current portion of the financial liabilities at FVTPL. Our current ratio decreased significantly from 8.6 as of December 31, 2022, to 0.8 as of December 31, 2023 and remained relatively stable at 0.7 as of June 30, 2024, primarily due to the significant increase of the current portion of financial liabilities at FVTPL. See "—Net Current Assets" for further detailed explanations on current assets and current liabilities.

The average trade payables turnover days were 29.1 days in 2021, 43.8 days in 2022 and 52.0 days in 2023. The increase in average trade payables turnover days from 2021 to 2023 was primarily due to longer payment settlement periods with respect to suppliers. The average trade payables turnover days subsequently decreased to 52.3 days for the six months ended June 30, 2024, primarily due to our bill settlement efforts.

The average trade receivables turnover days were 114.6 days in 2021, 153.3 days in 2022, 160.7 days in 2023 and 227.2 days for the six months ended June 30, 2024. The increase in average trade receivables turnover days from 2021 to the six months ended June 30, 2024 was primarily due to the significant increase in trade receivables as we began serving more cognitive centers and delayed payments from scientific research projects.

RELATED-PARTY TRANSACTIONS

The following table sets forth transactions between us and our related parties during the Track Record Period.

	For the year ended December 31,			For the six months ended June 30,	
	2021	2022	2023	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-trade loan to:					
Zhipan LP	6	–	–	–	–
Advance to					
Shuhui LP	–	–	3,718	1,900	–
Dr. Wang	–	–	2,200	–	–
Repayment of loan from:					
Zhipan LP	–	–	29	–	–
Repayment of advance from:					
Shuhui LP	–	–	3,718	–	–
Dr. Wang	–	–	2,200	–	–
Repayments to:					
Zhipan LP	18	–	–	–	–
Shuhui LP	4,063	–	2,267	2,267	–
Dr. Wang	5	–	97	–	–

The transactions above were carried out in accordance with the terms agreed with the counterparties.

The following table sets forth outstanding balances with related parties as of the dates indicated.

	As of December 31,			For the six months ended June 30,
	2021	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from related parties				
Zhipan LP	29	29	–	–
Amounts due to related parties				
Dr. Wang	97	97	–	–
Shuhui LP	2,267	2,267	–	–

The amounts due from related parties and due to related parties are all non-trade in nature unsecured, interest-free and repayable on demand as of each of the dates indicated in the table above.

Our Directors confirm that all material related party transactions during the Track Record Period were conducted on an arm's length basis, and would not distort our results of operations over the Track Record Period or make our historical results over the Track Record Period not reflective of our expectations for our future performance. We settled all outstanding balances with related parties as of the Latest Practicable Date, and do not intend to incur further such transactions after [**REDACTED**]. Details of our transactions with related parties during the Track Record Period are set out in Note 37 to the Accountants' Report included in Appendix I to this Document.

MARKET AND OTHER FINANCIAL RISK DISCLOSURE

We are exposed to a variety of market and financial risks, including currency risk, interest rate risk, other price risk and liquidity risk. See Note 33 to the Accountants' Report included in Appendix I to this Document for details regarding these risks.

DIVIDEND

No dividend had been proposed, paid or declared by our Company since our incorporation till the Latest Practicable Date. We do not currently have a dividend policy.

We are a holding company incorporated in the Cayman Islands. We may need dividends and other distributions on equity from our PRC subsidiaries to satisfy our liquidity requirements. Current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, our PRC subsidiaries are required to set aside at least 10.0% of their respective accumulated profits each year, if any, to fund certain reserve funds until the total amount set aside reaches 50.0% of their respective registered capital. Our PRC subsidiaries may also allocate a portion of its after-tax profits based on PRC accounting standards to employee welfare and bonus funds at their discretion. These reserves are not distributable as cash dividends. Furthermore, if our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us.

We currently expect to retain all future earnings for use in the operation and expansion of our business and do not anticipate paying cash dividends in the foreseeable future. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Act. The declaration and payment of any dividends in the future may be determined by our Board as it thinks fit, and will depend on a number of factors, including our earnings, capital requirements, overall financial condition and contractual restrictions. Our shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board. As advised by our

Cayman counsel, under the Cayman Companies Act a Cayman Islands company may pay a dividend out of either profits or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. In light of our accumulated losses as disclosed in this Document, it is unlikely that we will be eligible to pay a dividend out of our profits in the foreseeable future. We may, however, pay a dividend out of our share premium account unless the payment of such a dividend would result in our Company being unable to pay our debts as they fall due in the ordinary course of business. There is no assurance that dividends of any amount will be declared to be distributed in any year.

DISTRIBUTABLE RESERVES

As of June 30, 2024, we did not have any distributable reserves.

[REDACTED] EXPENSE

The total [**REDACTED**] expenses payable by our Company are estimated to be approximately RMB[**REDACTED**] representing [**REDACTED**]% of the total gross [**REDACTED**] from the [**REDACTED**], assuming the [**REDACTED**] is not exercised and based on an [**REDACTED**] of HK$[**REDACTED**] (being the mid-point of our [**REDACTED**] range of HK$[**REDACTED**] to HK$[**REDACTED**] per [**REDACTED**]). These [**REDACTED**] expenses mainly comprise legal and other professional fees paid and payable to the professional parties, commissions payable to the [**REDACTED**], and printing and other expenses for their services rendered in relation to the [**REDACTED**] and the [**REDACTED**].

Approximately RMB[**REDACTED**] of such [**REDACTED**] expenses is expected to be charged to our consolidated statements of profit or loss, and approximately RMB[**REDACTED**] of which is expected to be deducted from equity (relating to [**REDACTED**] expenses directly attributable to the [**REDACTED**] of shares). During the Track Record Period, [**REDACTED**] expenses of RMB[**REDACTED**] were incurred of which RMB[**REDACTED**] were charged to our consolidated statements of profit or loss and other comprehensive income and RMB[**REDACTED**] were recognized to our consolidated statements of financial position. We estimate that we will further incur [**REDACTED**] expenses of RMB[**REDACTED**] of which RMB[**REDACTED**] will be charged to our consolidated statements of comprehensive income and RMB[**REDACTED**] is expected to be accounted for as a deduction from equity upon completion of the [**REDACTED**].

The following table sets forth a breakdown of the [**REDACTED**] for the [**REDACTED**] based on the mid-point [**REDACTED**] of HK$[**REDACTED**].

[**REDACTED**] **Expenses**	**Based on an [REDACTED] of HK$[REDACTED]**
	HK$'000
[**REDACTED**] related expenses	
Legal and audit expenses	[**REDACTED**]
Other expenses	[**REDACTED**]
[**REDACTED**] related expenses	[**REDACTED**]
Total	[**REDACTED**]

During the Track Record Period, the amount of the [**REDACTED**] expenses charged to our consolidated statements of profit or loss was [**REDACTED**], [**REDACTED**], RMB[**REDACTED**], RMB[**REDACTED**] and RMB[**REDACTED**] in 2021, 2022, 2023, and the six months ended June 30, 2023 and 2024, respectively, and the amount of the [**REDACTED**] expenses recognized to our consolidated statements of financial position which will be deducted in equity upon [**REDACTED**] was [**REDACTED**], [**REDACTED**], RMB[**REDACTED**], RMB[**REDACTED**] and RMB[**REDACTED**] in 2021, 2022, 2023, and the six months ended June 30, 2023 and 2024, respectively.

SUBSEQUENT EVENTS

On [●], 2024, our Shareholders resolved to, among other things, conduct the [**REDACTED**] pursuant to which each share in our then issued and unissued share capital was [**REDACTED**] into [**REDACTED**] of the corresponding class with nominal value of [**REDACTED**] each effective upon the conditions of the [**REDACTED**] being fulfilled. Our Shareholders also resolved to, immediately upon completion of the [**REDACTED**], automatically convert each issued and unissued Series A Preferred Shares into ordinary Shares on a one-to-one basis by way of re-designation upon [**REDACTED**].

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that up to the date of this Document, there has been no material adverse change in our financial, operational or trading positions or prospects since June 30, 2024 being the end of the period reported on as set out in the Accountants' Report included in Appendix I to this Document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.