

CONTRACTUAL ARRANGEMENTS

BACKGROUND

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

Our Consolidated Affiliated Entities include (i) Yunkang Industry and its subsidiaries; and (ii) Guangzhou Clinic. We do not directly own 100% equity interest in the Consolidated Affiliated Entities. Yunkang Industry is currently held by the Registered Shareholders. Guangzhou Clinic is currently held by Guangzhou Yunkang as to 70% and by Yunkang Industry by 30%. The principal business of each of the Group’s Consolidated Affiliated Entities and the basis that they have to be controlled through the Contractual Arrangements is set out as below.

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

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Consolidated Affiliated Entities	Principal Business	Basis to be controlled through the Contractual Arrangements
Guangzhou Daan, Chengdu Daan, Jiangxi Yunkang Daan Medical Laboratory Co., Ltd., Shanghai Daan, Hefei Daan Medical Laboratory Co., Ltd. and Kunming Gaoxin Daan Medical Laboratory Co., Ltd.	Diagnostic testing services including clinical genetic testing service	According to the 2021 Negative List, foreign investment is prohibited for the companies engaged in development and application of gene diagnosis and treatment technology, which forms part of clinical genetic testing
Guangxi Yunkang Daan Medical Laboratory Co., Ltd., Jinan Yunkang Daan Medical Laboratory Co., Ltd., Shenzhen Yunkang Daan Medical Laboratory, Guiyang Yunkang Daan Medical Laboratory Co., Ltd., Zhuhai Yunkang Daan Medical Laboratory Co., Ltd., Foshan Yunkang Daan Medical Laboratory Co., Ltd., Shantou Yunkang Daan Medical Laboratory Co., Ltd., Huizhou Yunkang Daan Medical Laboratory Co., Ltd., Dongguan Yunkang Daan Medical Laboratory Co., Ltd. and Guangzhou Baiyun Yunkang Daan Medical Laboratory Co., Ltd.	Planning to conduct diagnostic testing services including clinical genetic testing service	According to the 2021 Negative List, foreign investment is prohibited for the companies engaged in development and application of gene diagnosis and treatment technology, which forms part of clinical genetic testing
Guangzhou Clinic	Medical outpatient service	According to the 2021 Negative List, foreign investment is restricted for the companies engaged in medical outpatient service

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Consolidated Affiliated Entities	Principal Business	Basis to be controlled through the Contractual Arrangements
Yunkang Lingnan	A project company for the development of the Group’s global headquarters with no business operations	Yunkang Lingnan is held by Yunkang Industry and the transfer of equity interest in Yunkang Lingnan will constitute a breach of the Investment Agreement (as defined below)

To comply with the relevant PRC laws and regulations, we entered into a series of Contractual Arrangements with Yunkang Industry and its Registered Shareholders on October 22, 2019 which were restated and amended on December 29, 2020 and February 24, 2021. The underlying operating subsidiaries (the “**Operating Subsidiaries**”) of Yunkang Industry became parties of the Contractual Arrangements on February 4, 2022. Pursuant to the Contractual Arrangements we acquired effective control over the Consolidated Affiliated Entities and consolidated the results of the Consolidated Affiliated Entities. Our Directors believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into between WFOE, Yunkang Industry, its Operating Subsidiaries and the Registered Shareholders; (ii) by entering into the Exclusive Consultancy and Service Agreement (as defined below), Yunkang Industry will enjoy better economic and technical support from us; and (iii) a number of other companies use similar arrangements to accomplish the same purpose.

PRC Laws and Regulations relating to Overseas Listing

On December 24, 2021, the CSRC, together with other relevant government authorities in China issued the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)), and the Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (境內企業境外發行上市備案管理辦法(徵求意見稿)) (collectively the “**Draft VIE Regulations**”).

The Draft VIE Regulations, if adopted in their current forms, will regulate both direct and indirect overseas offering and listing of PRC domestic companies’ securities by adopting a filing-based regulatory regime. According to the Draft VIE Regulations, PRC domestic companies that seek to offer and list securities in overseas markets, either in direct or indirect means (such as ours), are required to fulfill the filing procedure with the CSRC and report relevant information. The Draft VIE Regulations also proposed a number of regulatory requirements for listing applicants adopting a variable interest entity (“**VIE**”) structure through contractual arrangements, including but not limited to the circumstances under which listing overseas was prohibited by the PRC laws, regulations and relevant provisions in relation to

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foreign investment, cybersecurity, data security, corporate governance, financial and accounting practices, the planned use of proceeds, and confidentiality duty that listing applicants shall comply. Where an issuer submits an application for initial public offering to competent overseas regulators, the issuer must submit to the CSRC filing documents within three working days after such application is submitted. The Draft VIE Regulations also required subsequent report to the CSRC on material events, such as material change in principal business and change of control. As of the Latest Practicable Date, the Draft VIE Regulations were in draft form and had not come into effect.

On December 24, 2021, a spokesperson of the CSRC at a press conference in relation to the Draft VIE Regulations (“**Press Conference**”) clarified that the implementation of the Draft VIE Regulations will follow the legal principle of non-retroactivity and the CSRC would initiate the filing requirements and procedures with the new applicants (“**New Applicants**”), i.e. the new overseas initial public offering applicants, and the stock enterprises (“**Stock Enterprises**”), i.e. the existing overseas-listed companies) that had subsequent financing activities, while the remaining Stock Enterprises will be separately granted a sufficient transitional period in order for them to complete the relevant filing procedures after the Draft VIE Regulations became effective. In addition, during the Press Conference, the spokesperson of the CSRC also stated that “conditional upon complying with the domestic laws and regulations, enterprises adopting a VIE structure that have met the compliance requirements may seek listing overseas after completing proper filing procedures”. Therefore, as confirmed by our PRC Legal Advisers, the Draft VIE Regulations do not raise new compliance requirements for the business operations and overseas offering and listing of PRC domestic companies adopting a VIE structure through contractual arrangement. Therefore, we and our PRC Legal Advisers do not expect the Draft VIE Regulations, if adopted in their current forms, would have a material adverse impact on our business operations and the [REDACTED]. Once the Draft VIE Regulations are promulgated and implemented, we will, if necessary, immediately comply with the filing procedures in effect as the Draft VIE Regulations become effective.

In addition, on December 27, 2021, the NDRC published the latest revisions to the Special Administrative Measures for Access of Foreign Investment (Negative List) (the “**2021 Negative List**” or the “**Negative List on Access to Foreign Investment**”). Article 6 of the Interpretation Note of the 2021 Negative List (“**Article 6**”) provides that “where a domestic enterprise engaged in the business in the prohibited areas of the Negative List on Access to Foreign Investment seeks to issue and list its shares overseas (“**Overseas Issuance and Listing by a Domestic Enterprise under 2021 Negative List**”), it shall complete the examination process and obtain approval of the relevant competent authorities of the State, the foreign investor shall not participate in the operation and management of the enterprise, and its shareholding percentage shall be subject to the relevant provisions on the administration of domestic securities investment by foreign investors.” However, the 2021 Negative List itself does not provide a clear definition of the Overseas Issuance and Listing by a Domestic Enterprise under 2021 Negative List, or an explicit guidance of its scope, in particular, whether a company’s listing with a VIE structure falls within its scope for the purpose of Article 6.

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On December 27, 2021, a spokesman from the NDRC at a press conference in relation to the 2021 Negative List held that the supervision and administration of the Overseas Issuance and Listing by a Domestic Enterprise under 2021 Negative List shall be led by the CSRC and the CSRC will seek the view of the competent authority in the relevant industry or sector after receipt of the application materials for an “overseas listing” (“境外上市”). On January 18, 2022, another press conference was held by the NDRC to further clarify the position of Article 6, during which the spokesman made it clear that Article 6 shall only be applying to the situations where domestic enterprises were seeking a direct overseas issuance and listing (i.e. H-shares listing). Our PRC Legal Advisors have advised that (1) as of the Latest Practicable Date, the [REDACTED] is not required to obtain any examination and approval from the CSRC and/or the relevant industry authorities in accordance with the relevant laws and regulations currently in effect explicitly; (2) if the Draft VIE Regulations become effective in their current forms, the Company is not required to complete any examination/filing procedures and/or obtain approval from the CSRC before the [REDACTED], provided that the Company has completed the [REDACTED] at the time the Draft VIE Regulations became effective; and (3) the [REDACTED] does not constitute an Overseas Issuance and Listing by a Domestic Enterprise under 2021 Negative List and, therefore, the Company is not required to complete any examination/filing procedures and/or obtain approval from the CSRC and/or the relevant industry authorities under Article 6 of the 2021 Negative List.

Further, our PRC Legal Advisors have conducted a full legal due diligence for the purpose of examining whether the Company is able to comply with the Draft VIE Regulations if they are implemented in their current forms. Our PRC Legal Advisors conclude that:

- (1) there are no specific clauses or relevant provisions in PRC laws and regulations that explicitly prohibited us from listing overseas. We are a medical operation service provider in China, mainly providing diagnostic testing services to medical and non-medical institutions, and there are no such circumstances under which the [REDACTED] is expressly prohibited by PRC laws, regulations and relevant provisions currently in effect. We have not received any notice or decision from the relevant authorities under the State Council stating that, based on their review in accordance with the PRC laws, the [REDACTED] would threaten or endanger China’s national security.
- (2) there have not been any material non-compliance incidents discovered from the comprehensive review of the compliance status in relation to foreign investment, cybersecurity, and data security in all material aspects, and duly performed its duty of safeguarding national security. The Group’s relevant data processing activities all take place in the PRC, and the [REDACTED] will not substantially increase the factors related to national security risks. Based on the latest Cybersecurity Review Measures and the phone consultation conducted jointly by our PRC Legal Advisors and the PRC legal advisers of the Joint Sponsors with the China Cybersecurity Review Technology and Certification Center, no security review is required for the [REDACTED].

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- (3) each of the Group’s domestic subsidiaries has formulated its articles of association and regulated its corporate governance and financial and accounting practices in accordance with the Company Law of the People’s Republic of China, the Accounting Law of the People’s Republic of China and other laws and regulations.
- (4) the planned use of [REDACTED] from the [REDACTED] is in compliance with the requirements of the relevant PRC regulations. We have completed the foreign exchange registration for individual domestic residents’ overseas investments (the “SAFE Circular 37 Registration”) for the relevant Chinese individual shareholders, and also obtained the certificate for foreign exchange registration for FDI obligatory inbound capital contribution for our relevant domestic subsidiaries in accordance with the PRC laws for the purpose of the [REDACTED], which is in compliance with the national regulations on cross-border investment and financing, foreign exchange and cross-border RMB administrations, etc.
- (5) we have established a sound confidentiality system, and taken necessary steps to implement its duty of confidentiality. All the data processed by us are stored in the PRC and have not been provided to any third party overseas. The [REDACTED] does not involve the provision of personal information and important data overseas. At the same time, we have established a data security management system and a personal information protection system in compliance with the relevant PRC laws and regulations.
- (6) to our best knowledge, none of the circumstances that would prohibit PRC domestic companies from conducting the [REDACTED] under the Draft VIE Regulations exists for us.
- (7) our PRC Legal Advisers have also conducted public searches against our PRC-subsidiaries, our controlling shareholders, as well as our directors and senior management, and did not find any of them having been involved in relevant criminal offences or administrative penalties that would prohibit us from conducting the [REDACTED] under the Draft VIE Regulations.

On the basis of the foregoing, we and our PRC Legal Advisors do not foresee there would be any material legal obstacles for us to comply with each provision of the Draft VIE Regulations after they are implemented in their current forms.

PRC Laws and Regulations relating to Foreign Ownership Restriction

Genetic Testing Service and Medical Outpatient Service

Foreign investment activities in the PRC are mainly governed by the Guidance Catalog of Industries for Foreign Investment (the “Catalog”), which was promulgated and is amended from time to time jointly by the MOFCOM and the NDRC and the 2021 Negative List jointly promulgated by NDRC and MOFCOM. The 2021 Negative List stipulates industries in which

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foreign investment is restricted and prohibited. As confirmed by our PRC Legal Advisers, according to the 2021 Negative List, the operation of our clinical genetic testing service involves the development and application of gene diagnosis and treatment technology, which is considered “prohibited”, and the operation of medical outpatient service is considered “restricted.”

Pursuant to the Interim Administrative Measures on Sino-Foreign Equity Medical Institutions and Sino-Foreign Cooperative Medical Institutions (《中外合資、合作醫療機構管理暫行辦法》), which allow foreign investors to partner with Chinese medical entities to establish a medical institution in China by means of equity joint venture or cooperative joint venture, establishment of equity joint venture or cooperative joint venture are subject to certain requirements, including the minimum 30% equity percentage held by the Chinese partner in the joint venture. In addition, a medical institution in China can be wholly-owned by qualified service providers as defined under Notice of Expanding the Territorial Scope for Hong Kong and Macao Service Suppliers to Establish Wholly-Owned Hospitals in the Mainland (關於擴大香港和澳門服務提供者在內地設立獨資醫院地域範圍的通知), the Mainland and Hong Kong Closer Economic Partnership Arrangement and its supplemental Agreements (內地與香港關於建立更緊密經貿關係的安排及其補充協議), Interim Measures for the Administration of Hong Kong and Macao Service Providers’ Establishment of Sole Proprietorship Hospitals in the Mainland (香港和澳門服務提供者在內地設立獨資醫院管理暫行辦法) (the “**Interim Measures**”), and Notice Concerning Establishment of Medical Institutions in the Mainland by Hong Kong and Macao Service Providers (關於香港和澳門服務提供者在內地設立醫療機構有關問題的通知). Pursuant to the Mainland and Hong Kong Closer Economic Partnership Arrangement, a Hong Kong qualified service provider should be incorporated or established in Hong Kong, having engaged in substantive business operations for 3 years or more and have obtained a valid Business Registration Certificate. A Hong Kong qualified service provider should be examined by the Trade and Industry Department of the Hong Kong Special Administrative Region and will be granted a certificate if it meets the criteria of Hong Kong qualified service suppliers. A Hong Kong qualified service provider also needs to be recognized by the Mainland’s authorities. In addition, pursuant to the Interim Measures in order to apply for the establishment of sole proprietorship hospitals in the Mainland, a Hong Kong qualified service provider shall have direct or indirect investments experience and management experience in medical treatment and public health industry. Therefore, as advised by our PRC Legal Advisers, our Company, registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on January 27, 2021, which does not engage in substantive business operations and has no Business Registration Certificate, is not a “qualified service provider”. If the Company and/or any of our subsidiaries meet the requirements of a qualified service provider to establish a medical institution in the future as well as other requirements set out in applicable PRC laws and regulations governing sole proprietorship hospitals and the relevant government authority accepts applications for the relevant licenses made by wholly-owned foreign investment entities, the equity interest of Guangzhou Clinic held by Guangzhou Yunkang and Yunkang Industry will be transferred to the Company or relevant subsidiary.

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Our PRC Legal Advisers and the Joint Sponsors’ PRC legal advisers conducted interviews with Health Commission of Guangdong Province (廣東省衛生健康委員會), Guangzhou Municipal Health Commission (廣州市衛生健康委員會), Health Commission of Sichuan Province (四川省衛生健康委員會), Chengdu Municipal Health Commission (成都市衛生健康委員會), Nanchang Municipal Health Commission (南昌市衛生健康委員會), Health Commission of Anhui Province (安徽省衛生健康委員會), Shanghai Municipal Health Commission (上海市衛生健康委員會), Health Commission of Yunnan Province (雲南省衛生健康委員會), Health Commission of High-Tech District, Jinan City (濟南市高新區衛生健康委員會), Nanning Municipal Health Commission (南寧市衛生健康委員會) and Health Bureau of Nanming District, Guiyang City (貴陽市南明區衛生健康局) on August 30, 2021, January 13, 2021, January 14, 2021, January 11, 2021, December 18, 2020, January 6, 2021, January 29, 2021, January 15, 2021, August 30, 2021, August 30, 2021 and February 10, 2022, respectively. According to the officers, (i) foreign investors are not allowed to directly or indirectly hold any equity interest in a company carrying out clinical genetic testing service; (ii) foreign investors are not allowed to circumvent the restrictions on the shareholding ratio of investment in domestic medical institutions carrying out medical outpatient service; and (iii) the execution and performance of the Contractual Arrangements do not require any approval or authorization by them. Our PRC Legal Advisers has advised us that the above government agencies are competent authorities and the officers interviewed are competent to give such confirmation in respect of foreign investments, and are of the view that our Company, as a foreign entity, (i) shall not hold any equity interests in Yunkang Industry, and (ii) shall not hold more than 70% equity interests in Guangzhou Clinic.

The provision of clinical genetic testing service is inalienable from the remaining testing services of Yunkang Industry’s subsidiaries for the following reasons: (i) genetic testing forms part of its diagnostic testing services and could not be separated as a stand-alone type of service. Most clinical examination and diagnosis items need to combine gene service and non-gene service to arrive at the diagnosis conclusion, such as nucleic acid test, NGS genetic test for solid tumors and non-invasive fetal chromosomal abnormality prenatal genetic test, respectively in the categories of infectious disease diagnostic tests, pathology tests and genetic disease diagnostic tests; (ii) genetic testing services and the remaining testing services share similar target hospitals, require similar raw materials such as assays and devices and are operated under the same group of sophisticated laboratory staff. Practically, target hospitals do not accept separate reports issued by separate independent clinical laboratories based on the same specimens and test samples collected from the same patients. It is infeasible for the medical institution customers in our diagnostic testing services for medical institution alliances to build separate diagnostic centers and engage with our separate entities to perform genetic and non-genetic diagnostic tests; (iii) the operation of our clinical genetic testing service involves the development and application of gene diagnosis and treatment technology which requires the collaboration of well-trained personnel with expertise in different areas. Personnel required for genomic-based testing services are largely the same as those required by other testing services of our Group; (iv) to ensure the comparability and reliability of the test results under different testing items, it is infeasible to separate the limited specimens and test samples collected for the use of either genetic testing or non-genetic testing in separate laboratories. In addition, it is infeasible to request hospitals to procure extra specimens and samples and deliver

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the specimens and samples to separate laboratories, since it is common industry practice for the hospital to procure different diagnostic testing services from one laboratory using the same specimen to ensure the comparability and reliability of the test results and achieve better efficiency. It may also undermine our market competitiveness and business operation if different diagnostic testing services for the hospital are separately conducted in our laboratories; and (v) we do not differentiate the setup and layout of our independent clinical laboratories and on-site diagnostic centers for different types of testing services. We provided both genetic and non-genetic testing services under our Consolidated Affiliated Entities during the Track Record Period. As such, our PRC Legal Advisers are of the view, and the Joint Sponsors concur that the Contractual Arrangements are narrowly tailored.

We provide four categories of diagnostic testing services, namely infectious disease diagnostic tests, pathology tests, genetic disease diagnostic tests and routine diagnostic tests. Except routine diagnostic tests, the rest of the diagnostic testing services involve the application of gene diagnosis and treatment technology. Please refer to “Financial Information—Description of Key Items in Our Consolidated Statements of Comprehensive Income—Revenue” for the revenue contribution of each diagnostic testing service.

Value-added Telecommunication Service

According to relevant regulations in the PRC, foreign investors are not allowed to hold more than 50% of the equity interests in a company providing value-added telecommunications services. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in and a proven track record of operating value-added telecommunications businesses overseas (the “**Qualification Requirements**”). Enterprises engaged in value-added telecom business in the PRC with foreign investors that meet these requirements must obtain approvals from MIIT and/or its authorized local counterparts which retain considerable discretion in granting such approvals. Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. The MIIT issued a guidance memorandum on the application requirement for establishing foreign-invested value-added telecommunications enterprises in the PRC. According to this guidance memorandum, an applicant is required to provide, among other things, the applicant’s previous telecommunications business licenses issued by the relevant local authorities, satisfactory proof of the Qualification Requirements and a business development plan. The guidance memorandum does not provide any further guidance on the proof, record or document required to support the proof satisfying the Qualification Requirements. Further, this guidance memorandum does not purport to provide an exhaustive list on the application requirement. Our PRC Legal Advisers has advised us that as of the Latest Practicable Date, (i) this guidance memorandum has no legal or regulatory effect under the PRC laws and (ii) no applicable PRC laws, regulations or rules have provided clear guidance or interpretation on the Qualification Requirements.

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Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have taken the following measures to be prepared for meeting the Qualification Requirements when we initiate the value-added telecommunication service in the future.

- We are in the process of registering trademarks outside the PRC for the expansion of its business operations overseas as and when appropriate;
- We have incorporated a subsidiary in Hong Kong, namely YK HK, which can readily service as an overseas platform when it expands its business outside the PRC;
- We have considered expansion plans for overseas markets and have further conducted overseas market and overseas investment feasibility research; and
- We are planning to establish an overseas website that will facilitate our overseas expansion and will help potential overseas users to better understand our services and businesses.

Pursuant to the Service Guidelines for the Examination and Approval of Telecommunications Business License (電信業務經營許可審批服務指南) published on the governmental service platform of MIIT, record of the foreign investors filing or operating famous website (if any) should be provided as materials demonstrating the fulfilment of Qualification Requirements. Our PRC Legal Advisers are of the view that the above-mentioned measures taken or to be taken by us to meet the Qualification Requirements are reasonable and appropriate.

Our PRC Legal Advisers and the Joint Sponsors’ PRC legal advisers also conducted an interview with Guangdong Communications Administration (廣東省通信管理局) on August 25, 2021 to confirm that relevant authorities will not approve or grant ICP licenses applied by a foreign investment entity. Our PRC Legal Advisers has advised us that the above government agency is competent authorities and the officer interviewed are competent to give such confirmation in respect of foreign investments, and are of the view that our Company, as a foreign entity, will not be approved to hold or granted the ICP licenses. We will, as applicable and when necessary, disclose the updates to the Qualification Requirements in our annual and interim reports to inform Shareholders and other investors after the [REDACTED]. We will also make periodic inquiries with relevant PRC authorities to understand any new regulatory development and assess whether our level of overseas experience is sufficient to meet the Qualification Requirements.

Control of Yunkang Lingnan through the Contractual Arrangements

Yunkang Lingnan is a wholly-owned subsidiary of Yunkang Industry and was established as a project company for the development of a parcel of land to fulfil the commitments in an investment agreement (the “**Investment Agreement**”) entered into on September 9, 2019 between Yunkang Industry and Guangzhou Development Zone Investment Promotion Bureau (廣州市開發區投資促進局) (the “**Investment Promotion Bureau**”). Pursuant to the

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Investment Agreement, the Investment Promotion Bureau would facilitate Yunkang Industry to acquire the land use right to one parcel of land through a public tender, auction and listing-for-sale process and to construct the global headquarters of the Group, medical centres and other facilities on the site.

Yunkang Industry and Guangzhou Municipal Planning and Natural Resources Bureau (廣州市規劃和自然資源局) (the “**Planning and Natural Resources Bureau**”) entered into a state-owned construction land use right transfer agreement (the “**Transfer Agreement**”) on November 25, 2019 and a supplemental agreement to the Transfer Agreement on December 3, 2019, pursuant to which Yunkang Lingnan acquired the land use right (the “**Land Use Right**”) to one parcel of land with an area of 6,251 m² for a consideration of approximately RMB137 million. Pursuant to the Transfer Agreement, if the transferee transfers the Land Use Right in any manner, such as transferring the equity interest in the project company, within 40 years after the transfer of the Land Use Right without the written consent of the Guangzhou Huangpu District Government, the Guangzhou Development Zone Management Committee or their relevant working departments, the transferor has the right to recover the land, and all the proceeds obtained by the transferee shall belong to the transferor.

The Company has communicated with the Investment Promotion Bureau regarding possibilities of transfer of the Land Use Right or the equity interests in Yunkang Lingnan. According to a written confirmation dated November 26, 2020 issued by the Investment Promotion Bureau, (a) Yunkang Lingnan is not allowed to transfer the Land Use Right to any other entities, including affiliates of Yunkang Industry or other third parties; and (b) the transfer of equity interest in Yunkang Lingnan by Yunkang Industry or the transfer of equity interest in Yunkang Industry by its shareholders will constitute a breach of the Investment Agreement (the “**Restrictions**”). Pursuant to the Transfer Agreement, the Planning and Natural Resources Bureau may recover the Land Use Right if the Group does not comply with the Restrictions.

Pursuant to the Notice of the Office of the Guangzhou Development Zone Management Committee on Issuing the Provisions on the Main Responsibilities and Staffing of the Guangzhou Development Zone Investment Promotion Bureau (廣州開發區管委會辦公室關於印發廣州開發區投資促進局主要職責內設機構和人員編製規定的通知), the Investment Promotion Bureau is a working department of the Guangzhou Development Zone Management Committee and is responsible for investment promotion matters within Guangzhou Huangpu District and Guangzhou Development Zone. Our PRC Legal Advisers conducted a general telephone consultation with an official of the Investment Promotion Bureau on January 8, 2021, who has verbally confirmed that the Investment Promotion Bureau is a working department of the Guangzhou Huangpu District Government. As advised by our PRC Legal Advisers, the Investment Promotion Bureau is the competent authority to advise the matters in relation to the Investment Agreement and the investment promotion activities within Guangzhou Huangpu District and Guangzhou Development Zone and the interviewee is authorized and competent to provide the relevant confirmations on behalf of the Investment Promotion Bureau.

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During the Track Record Period and as of the Latest Practicable Date, Yunkang Lingnan was not engaged in any business operations. The Group plans to use the land to construct the global headquarter of the Group and medical centres. As of the Latest Practicable Date, we had entered into a collaboration agreement with a third-party developer for the construction and development of the new headquarters on such parcel of land. For details, please see “Business—Business Strategies—Continue to upgrade and enhance our operational capabilities.” The construction and development of the new headquarters is expected to be completed by the end of 2021. Yunkang Lingnan will not be dissolved upon the completion of the project. Although Yunkang Lingnan will not conduct any clinical genetic testing services or any other prohibited business under the PRC laws and regulations, the Group have controlled Yunkang Lingnan through the Contractual Arrangements because the Group will lose the Land Use Right if the Land Use Right or the equity interests in Yunkang Lingnan are transferred to another member of the Group, which will have a material adverse impact on the Group’s financial positions and future plans.

After considering that (i) the Contractual Arrangements enable our Group to conduct business in industries that are subject to foreign investment restrictions or prohibitions in the PRC; and (ii) the above reasons for the control of Yunkang Lingnan through the Contractual Arrangements, our Directors are of the view that the Contractual Arrangements are narrowly tailored for the purpose of foreign ownership restrictions requirement. To comply with the narrowly tailored requirements, we undertake that (i) Yunkang Lingnan will not conduct any business activities other than the acquisition of the Land Use Right and the development of the land into the global headquarters of the Group, medical centers and other facilities, and (ii) Yunkang Lingnan will transfer the Land Use Right to a wholly-owned subsidiary of the Group upon such arrangement is allowed by the relevant authorities.

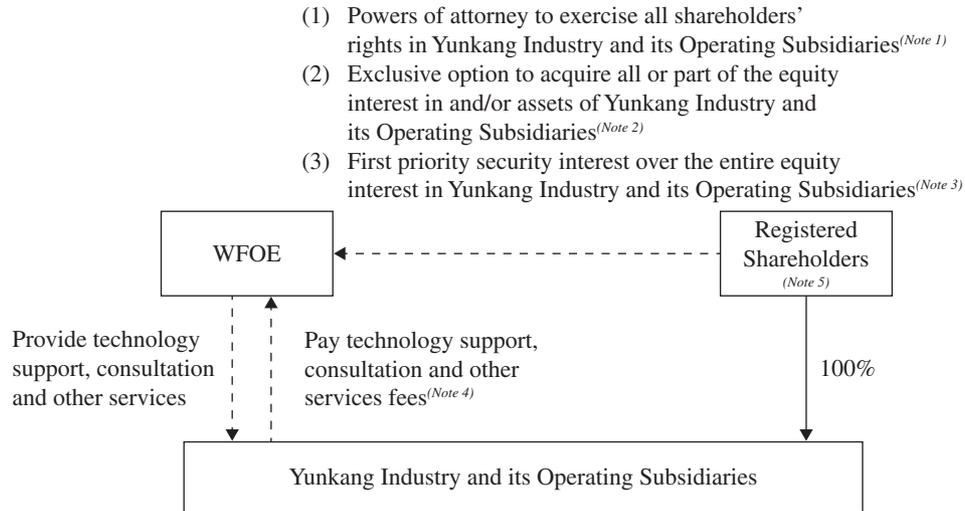
Circumstances under Which We will Terminate the Contractual Arrangements

As regards the Contractual Arrangements, if and when MOFCOM and/or other relevant governmental departments promulgate any measures for the administration of foreign-invested enterprises engaging in clinical genetic testing service and/or medical outpatient service, or such entities invested by foreign investors, depending on the limit of the percentage equity interest permitted to be held by foreign investors (if any), we will partially unwind the Contractual Arrangements and hold (directly or indirectly) equity interest in the Consolidated Affiliated Entities up to the percentage limit prescribed by such measures; and if there is no prescribed limit of the percentage equity interest permitted to be held by foreign investors and that our Company would be allowed to directly hold 100% of the equity interests in Consolidated Affiliated Entities, we will fully unwind the Contractual Arrangements and directly hold the entire equity interest in the Consolidated Affiliated Entities.

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SUMMARY OF THE MATERIAL TERMS OF THE CONTRACTUAL ARRANGEMENTS

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



- (1) Powers of attorney to exercise all shareholders’ rights in Yunkang Industry and its Operating Subsidiaries^(Note 1)
- (2) Exclusive option to acquire all or part of the equity interest in and/or assets of Yunkang Industry and its Operating Subsidiaries^(Note 2)
- (3) First priority security interest over the entire equity interest in Yunkang Industry and its Operating Subsidiaries^(Note 3)

Notes:

- (1) Please refer to “—Shareholders’ Voting Rights Entrustment Agreement” for details.
- (2) Please refer to “—Exclusive Option Agreement” for details.
- (3) Please refer to “—Equity Pledge Agreement” for details.
- (4) Please refer to “—Exclusive Consultancy and Service Agreement” for details.
- (5) The Registered Shareholders are the following persons who together hold the 100% equity interest of Yunkang Industry. For details of the Registered Shareholders, please refer to “History—Shareholding and Corporate Structure.”

Shareholders	Registered Capital (RMB)	Approximate percentage of shareholding
Da An Gene	432,000,300	46.96%
Gaoxin Yangguang	287,999,900	31.3%
Mouduanshan	107,999,800	11.74%
Tongfu Zhongchuang	32,000,400	3.48%
Guangzhou Huigang	12,800,000	1.39%
Guangzhou Anjianxin	9,600,200	1.04%
Heyuan Rongwei	9,200,000	1%
Kangcheng Da An	8,999,400	0.98%
Guangzhou Guoju	8,000,300	0.87%
Zhuhai Haochuang	4,600,000	0.5%
Mr. Lan Fu	2,300,000	0.25%
Guangzhou Kefeng	2,300,000	0.25%
Guangzhou Qiyi	1,199,700	0.13%
Guangzhou Jin An	1,000,000	0.11%

“→” denotes direct legal and beneficial ownership in the equity interest

“- →” denotes contractual relationship

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Exclusive Consultancy and Service Agreement

Under the exclusive consultancy and service agreement between Yunkang Industry and the WFOE on October 22, 2019 and amended on February 24, 2021 and the exclusive consultancy and service agreement between the WFOE and the Operating Subsidiaries of Yunkang Industry on February 4, 2022 (collectively, the “**Exclusive Consultancy and Service Agreements**”), Yunkang Industry and its Operating Subsidiaries agreed to engage the WFOE as their exclusive provider to provide technology support, consultation and other services within the business scope of Yunkang Industry and its Operating Subsidiaries.

Pursuant to the Exclusive Consultancy and Service Agreements, the service fee shall be equivalent to the total consolidated profit of Yunkang Industry and its Operating Subsidiaries within the scope of interests corresponding to the proportion of equity directly or indirectly held by Yunkang Industry, after offsetting the prior-year loss (if any), operating costs, expenses, taxes and other statutory contributions. Notwithstanding the foregoing, the WFOE shall have the right to adjust the amount of the service fee based on the actual service scope. Yunkang Industry and its Operating Subsidiaries shall make payment to the bank account designated by the WFOE upon the written request of the WFOE, quarterly or annually within the specified time. Our PRC Legal Advisers, are of the opinion that such payment of service fees is not subject to any legal or regulatory requirements in the PRC and does not violate any PRC laws.

In addition, pursuant to the Exclusive Consultancy and Service Agreements, without the prior written approval from the WFOE, Yunkang Industry and its Operating Subsidiaries shall not accept the same or any similar services provided by any third party and shall not, establish cooperation relationships similar to that formed by the Exclusive Consultancy and Service Agreements with any third party.

The Exclusive Consultancy and Service Agreements also provides that all intellectual property rights generated, developed or created during the performance of the Exclusive Consultancy and Service Agreements belong to the WFOE.

The Exclusive Consultancy and Service Agreements has a term of 15 years and shall automatically renew for ten years. Nonetheless, the WFOE shall always have the rights to terminate this agreement by giving a prior written notice of termination.

Exclusive Option Agreement

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

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its designated third party, in whole or in part at any time and from time to time (the “**Exclusive Option**”). Yunkang Industry, its Operating Subsidiaries and the Registered Shareholders have covenanted, among other things, that:

- (i) without the prior written consent of the WFOE, they shall not in any manner supplement, change or amend the constitutional documents of Yunkang Industry, and its Operating Subsidiaries increase or decrease their registered capital, or change the structure of their registered capital in other manner, divide, dissolve or change the structure of the corporate form in other manner;
- (ii) they shall maintain Yunkang Industry and its Operating Subsidiaries’ corporate existence and prudently and effectively operate its business and handle its affairs in accordance with good financial and business standards, practices and legal requirements;
- (iii) without the prior written consent of the WFOE, they shall not, at any time after execution of the Exclusive Option Agreements, sell, transfer, pledge or dispose of in any manner any assets, business, operation rights, legal or beneficial interest in the income of Yunkang Industry and/or its subsidiaries or allow any guarantee or security to be created upon them;
- (iv) without the prior written consent of the WFOE, Yunkang Industry and its Operating Subsidiaries shall not incur, inherit, guarantee or assume any debt, except for payables (a) incurred in the ordinary or usual course of business not generated by way of borrowing loans or (b) that has been previously disclosed to and consented by the WFOE in writing;
- (v) Yunkang Industry and its Operating Subsidiaries shall conduct their businesses in the ordinary course of business to maintain asset value and refrain from any action/omission that may adversely affect operating status and asset value of Yunkang Industry and its Operating Subsidiaries;
- (vi) without the prior written consent of the WFOE, Yunkang Industry and its Operating Subsidiaries shall not enter into any material contract with a value of more than RMB30 million, except for contracts executed in the ordinary course of business;
- (vii) without the prior written consent of the WFOE, Yunkang Industry and its Operating Subsidiaries shall not provide any loan, credit or any form of guarantee to any person;
- (viii) they shall provide the WFOE with information on business operations and financial condition of Yunkang Industry and its Operating Subsidiaries upon the request of the WFOE;

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- (ix) if requested by the WFOE, they shall procure and maintain insurance in respect of the assets and business of Yunkang Industry and its Operating Subsidiaries from an insurance carrier acceptable to the WFOE, for an amount and type of coverage typical for companies that operate similar businesses;
- (x) if the WFOE exercise the Exclusive Option, the consideration should be the minimum purchase price permitted under PRC laws and regulations and shall be returned to WFOE or its representatives by the Registered Shareholders;
- (xi) without the prior written consent of the WFOE, Yunkang Industry and its Operating Subsidiaries shall not merge, partner, consolidate, joint venture with, acquire or invest over RMB30 million in, any person;
- (xii) they shall immediately notify the WFOE of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to the assets, business or revenue of Yunkang Industry and its Operating Subsidiaries, and shall not settle without the prior written consent of the WFOE;
- (xiii) they shall sign all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate claims or raise necessary and appropriate defenses against all claims to maintain Yunkang Industry and its Operating Subsidiaries ownership of all their assets;
- (xiv) without the prior written consent of the WFOE, Yunkang Industry and its Operating Subsidiaries shall not in any manner distribute dividends (including any undistributed profit after tax generated prior to the commencement of the Exclusive Option Agreements) to their shareholders;
- (xv) at the request of the WFOE, they shall appoint any persons designated by the WFOE as the directors, supervisors and senior management of Yunkang Industry and its Operating Subsidiaries; without the prior written consent or request of the WFOE, no replacement or removal of any directors, supervisors and senior management of Yunkang Industry and its Operating Subsidiaries shall be made;
- (xvi) at the request of the WFOE, Yunkang Industry and its Operating Subsidiaries shall submit their respective company chops to the custody of person(s) designated by the WFOE; and consent from the WFOE is required for external use of such chops; and
- (xvii) they shall not terminate or procure the management team of Yunkang Industry and its Operating Subsidiaries to terminate any of the Contractual Arrangements entered into with the WFOE, or enter into any agreements that contradict with the Contractual Arrangements; and shall terminate immediately any other material contracts that would be in conflict with the Contractual Arrangements.

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The validity period of the Exclusive Option Agreements shall take effect upon the execution date and shall remain effective unless terminated (a) when the entire equity interests held by the Registered Shareholders or their successors or the transferees in Yunkang Industry and the relevant equity interest held by Yunkang Industry in its Operating Subsidiaries have been transferred to the WFOE or nominee(s) designated by Yunkang Industry; or (b) by written notice from the WFOE.

Equity Pledge Agreement

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

If Yunkang Industry and Operating Subsidiaries declare any dividend during the term of the pledge, the WFOE is entitled to receive all such dividends, bonus issue or other income arising from the pledged equity interests, if any.

The equity pledge shall remain valid until all the contractual obligations of Yunkang Industry, Operating Subsidiaries and the Registered Shareholders are satisfied and all secured indebtedness are settled in full under the Contractual Arrangements, or the nullification or termination of the Contractual Arrangements, whichever is later.

Upon the occurrence and during the continuance of an event of default (as defined in the Equity Pledge Agreements), unless such default is cured within ten (10) Business Days following the Registered Shareholders or Operating Subsidiaries or Yunkang Industry’s receipt of the written notice which requests for the cure of such default, the WFOE shall have the right to exercise all such rights as a secured party under the Equity Pledge Agreements and in compliance with applicable PRC law, including but not limited to (i) require the Registered Shareholders and/or Yunkang Industry and/or Operating Subsidiaries to settle all outstanding debts and other payables in full under the Contractual Arrangements immediately; (ii) being paid in priority with the equity interests based on the monetary valuation that such equity interest would convert into or from the proceeds from auction or sale of such equity interest; or (iii) dispose in any manner the pledged equity upon written notice to the Registered Shareholders under any applicable PRC law.

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

Shareholders’ Voting Rights Entrustment Agreement

Under the restated and amended shareholders’ voting rights entrustment agreement among each of Yunkang Industry, the Registered Shareholders and WFOE on October 22, 2019 and amended on December 29, 2020 and February 24, 2021 and the shareholders’ voting rights entrustment agreement among WFOE, Yunkang Industry and its Operating Subsidiaries on February 4, 2022 (collectively, the “**Shareholders’ Voting Rights Entrustment Agreements**”), each of the Registered Shareholders and Yunkang Industry irrevocably, unconditionally and exclusively appointed the persons designated by the WFOE as its attorneys-in-fact to exercise on his/her/its behalf, any and all shareholder’s right that he/she/it has in respect of its equity interests in Yunkang Industry and its Operating Subsidiaries, respectively, including without limitation:

- (i) to propose to convene and to attend shareholders’ meetings of Yunkang Industry and its Operating Subsidiaries;
- (ii) to transfer or dispose in any form of any or all of the equity interests in Yunkang Industry and its Operating Subsidiaries within the scope of interests corresponding to the proportion of equity directly or indirectly held by Yunkang Industry and, for the purpose of the foregoing, sign all required documents and perform all required procedures on behalf of the Registered Shareholders and Yunkang Industry;
- (iii) to exercise voting rights and execute any and all written resolutions and meeting minutes in the name and on behalf of such shareholder, including without limitation, to nominate, elect, appoint or remove the directors, supervisors or senior management of Yunkang Industry and its Operating Subsidiaries;
- (iv) to increase or decrease the registered capital, approve merger, reorganization, dissolution, liquidation or amendments on the articles of association of Yunkang Industry and its Operating Subsidiaries;

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- (v) to inspect or by other means review all documents and information of Yunkang Industry and its Operating Subsidiaries, including without limitation, business, operation, customers, financial position or employees;
- (vi) to receive notice for shareholders’ meetings, execute written resolutions and meeting minutes, and to file any registration documents related to the operations of Yunkang Industry and its Operating Subsidiaries to relevant governmental authorities and/or with administrative registration departments; and
- (vii) to exercise any other rights granted to shareholders pursuant to Yunkang Industry and its Operating Subsidiaries’ articles of association (including rights granted subsequent to amendments of such articles) or relevant laws and regulations.

The Shareholders’ Voting Rights Entrustment Agreements has a term of 15 years and shall automatically renew for ten years. The Shareholders’ Voting Rights Entrustment Agreements will be terminated when (i) all the equity interest or assets have been legally and effectively transferred to the WFOE or its appointed representative in accordance with the Exclusive Option Agreements; (ii) the WFOE terminates this Shareholders’ Voting Rights Entrustment Agreements in accordance with the provisions herein; or (iii) the agreements are terminated pursuant to the operation of laws of the PRC. In addition, the WFOE shall have the right to terminate the agreements by giving written notice to the Registered Shareholders and Yunkang Industry.

Shareholders’ Powers of Attorney

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

Spouse Undertakings

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

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

Succession

Pursuant to the Contractual Arrangements, the rights and obligations of the Registered Shareholder, will be legally binding on any assignee or successor of the parties. In addition, the spouse of the individual Registered Shareholder, Mr. Lan Fu, and the spouse of each of the ultimate beneficial owners or controllers of Gaoxin Yangguang, Mouduanshan, Tongfu Zhongchuang, Guangzhou Huigang, Yujiang Anjin and Guangzhou Anjianxin, where appropriate, has provided irrevocable undertakings which stipulate certain matters to succession of the rights and obligations under the Contractual Arrangements. Please refer to “– Spouse Undertakings” above.

Considering the above, our PRC Legal Advisers are of the view that (i) the Contractual Arrangements provide protection to our Group even in the event of loss of capacity, death, bankruptcy or divorce of the Registered Shareholders and its ultimate beneficial owners (“**successorship events**”); and (ii) such successorship events would not affect the validity of the Contractual Arrangements, and WFOE can enforce its right under the Contractual Arrangements against the successors.

Dispute Resolution

Each of the Contractual Arrangements provides that:

- (i) any dispute arising out of or in connection with the Contractual Arrangements shall be resolved through negotiation;
- (ii) if the parties are unable to settle the dispute within 30 days, any party shall have the right to refer the dispute to and have the dispute finally resolved by arbitration administered by Guangzhou Arbitration Commission in Guangzhou under the prevailing effective arbitration rules thereof and the language to be used during the arbitration shall be Chinese. The results of the arbitration shall be final and binding on all relevant parties;

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- (iii) the arbitration commission shall have the right to award remedies over the shares and assets (including land assets) of Yunkang Industry, injunctive relief (for the conduct of business or to compel the transfer of assets) or order the winding up of Yunkang Industry; and
- (iv) upon request by any party, the courts of competent jurisdictions shall have the power to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases. The courts of Hong Kong, Cayman Islands, the PRC and the place where our Company or the Yunkang Industry's principal assets are located, shall be considered as having jurisdiction for the above purposes.

In connection with the dispute resolution mechanisms as set out in the Contractual Arrangements and the practical consequences, we are advised by our PRC Legal Advisers that:

- (i) under the PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final liquidation order for the purpose of protecting assets of or equity interest in Yunkang Industry. As such, these remedies may not be available to our Group under the PRC laws;
- (ii) further, under the PRC laws, courts or judicial authorities in the PRC generally would not award injunctive relief over the equity interest and/or assets of Yunkang Industry, as interim remedies before there is any final outcome of arbitration;
- (iii) however, the PRC laws do not disallow the arbitral body to give award of transfer of assets of or an equity interest in Yunkang Industry at the request of arbitration applicant. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, the court may or may not support such award of the arbitral body when deciding whether to take enforcement measures;
- (iv) in addition, interim remedies or enforcement orders granted by courts of other jurisdictions such as that of Hong Kong may not be recognizable or enforceable in the PRC; therefore, in the event we are unable to enforce the Contractual Arrangements, we may not be able to exert effective control over each of our Consolidated Affiliated Entities, and our ability to conduct our business may be negatively affected; and
- (v) even if the above-mentioned provisions may not be enforceable under the PRC laws, the remaining provisions of the dispute resolution clauses are legal, valid and binding on the parties to the agreement under the Contractual Arrangements.

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As a result of the above, in the event that our Consolidated Affiliated Entities or the Registered Shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our Consolidated Affiliated Entities and conduct our business could be materially and adversely affected. See the section headed “Risk Factors—Risks Relating to Contractual Arrangements” for details.

Loss Sharing

In the event that our Consolidated Affiliated Entities incur any loss or encounter any operational crisis, the WFOE may, but is not obliged to, provide financial support to our Consolidated Affiliated Entities. None of the agreements constituting the Contractual Arrangements provide that our Company or its wholly-owned PRC subsidiary, the WFOE, is obligated to share the losses of our Consolidated Affiliated Entities or provide financial support to our Consolidated Affiliated Entities. Further, our Consolidated Affiliated Entities shall be solely liable for its own debts and losses with assets and properties owned by it.

Under the PRC laws and regulations, our Company or the WFOE, is not expressly required to share the losses of our Consolidated Affiliated Entities or provide financial support to our Consolidated Affiliated Entities. Despite the foregoing, given that our Consolidated Affiliated Entities’ financial condition and results of operations are consolidated into our Group’s financial condition and results of operations under the applicable accounting principles, our Company’s business, financial condition and results of operations would be adversely affected if our Consolidated Affiliated Entities suffer losses. However, due to the restrictive provisions contained in the Contractual Arrangements as set out in the paragraphs immediately above, the potential adverse effect on the WFOE and our Company in the event of any loss suffered from our Consolidated Affiliated Entities can be limited to a certain extent.

Insurance

Our Company does not maintain any insurance policy to cover the risks relating to the Contractual Arrangements. As advised by our PRC Legal Advisers, it is not a compulsory legal requirement to purchase insurance for Contractual Arrangements under PRC laws. Please refer to “Risk Factors—Risks relating to Contractual Arrangements” for the potential risks in relation to the Contractual Arrangements.

Arrangement to Address Potential Conflict of Interest

We have in place arrangements to address the potential conflicts of interest between the Registered Shareholders and our Company. Pursuant to the Exclusive Option Agreements, the WFOE has the right to require the Registered Shareholders to transfer any or all of their equity interests in Yunkang Industry to the WFOE or its designated third party. The Shareholders’ Voting Rights Entrustment Agreement provides that, in order to avoid potential conflicts of interest, where the Registered Shareholders are Directors, the power of attorney is granted in favor of other unrelated Directors or senior management of our Company. Based on the

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foregoing, our Directors are of the view that the measures we have adopted are sufficient to mitigate the risks associated with potential conflicts of interest between our Group and the Registered Shareholders and that these measures are sufficient to protect our Group's interest in our Consolidated Affiliated Entities.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

PRC Legal Opinions

Based on the above, our PRC Legal Advisers are of the opinion that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations and that:

- (i) each of our Consolidated Affiliated Entities was duly incorporated and is validly existing under the PRC laws, each of the Registered Shareholders is a legally established and validly subsisting entity;
- (ii) the Contractual Arrangements as a whole and each of the agreements comprising the Contractual Arrangements are legal, valid and binding on the parties thereto, enforceable under PRC laws and regulations, except that the Contractual Arrangements provide that the arbitral body may award remedies over the shares and/or assets of our Consolidated Affiliated Entities, injunctive relief and/or winding up of our Consolidated Affiliated Entities, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal, while under PRC laws, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting the assets of or equity interest in our Consolidated Affiliated Entities in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as the courts of Hong Kong may not be recognizable or enforceable in China, and the Contractual Arrangements would not be deemed void under Articles 144, 146, 153 and 154 of the PRC Civil Code;
- (iii) each of the Contractual Arrangements is not in violation of provisions of the articles of association of our Consolidated Affiliated Entities and The WFOE;
- (iv) appropriate arrangements have been made to protect the Group's interest in the event of winding-up of Yunkang Industry's registered shareholders to avoid any practical difficulties in enforcing the Contractual Arrangements; and
- (v) each of the Contractual Arrangements is enforceable under PRC laws and regulations, the entering into and the performance of each of the Contractual Arrangements do not require any approvals or authorizations from the PRC governmental authorities, except that: (i) the pledge of any equity interest in Yunkang Industry in favor of the WFOE is subject to registration requirements with

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relevant Administration of Industry and Commerce; and (ii) the transfer of equity interest in Yunkang Industry contemplated under the Contractual Arrangements is subject to applicable approval and/or registration requirements under the then applicable PRC laws. According to the interviews conducted by our PRC Legal Advisers and the Joint Sponsors’ PRC legal advisers, the relevant competent regulatory authorities have confirmed that the Contractual Arrangements will not be subject to challenges from or penalties imposed by them.

For details in relation to the risks involved in the Contractual Arrangements, see “Risk Factors—Risks Relating to Contractual Arrangements” in this document.

Directors’ Views on the Contractual Arrangements

After considering that (i) the Contractual Arrangements enable our Group to conduct business in industries that are subject to foreign investment restrictions or prohibitions in the PRC; and (ii) the reasons for the control of Yunkang Lingnan through the Contractual Arrangements, our Directors are of the view that the Contractual Arrangements are narrowly tailored for the purpose of foreign ownership restrictions requirement.

As of the date of this document, we have not encountered any interference or encumbrance from any governing bodies in our plan to adopt the Contractual Arrangements so that the financial results of the operation of our Consolidated Affiliated Entities can be consolidated to those of our Group, and based on the advice of our PRC Legal Advisers, the Directors are of the view that the Contractual Arrangements are enforceable under the PRC laws and regulations, except for relevant arbitration provisions, as disclosed in the paragraph headed “Dispute Resolution” in this section.

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon the [REDACTED] and it is impracticable and unduly burdensome for them to be subject to the relevant requirements under the Listing Rules as our Directors are of the view that the transactions contemplated under the Contractual Arrangements are fundamental to our Group’s legal structure and business operations, that such transactions have been and shall be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Please also refer to “Connected Transactions—Continuing Connected Transactions” in this document.

CONSOLIDATED FINANCIAL RESULTS OF OUR CONSOLIDATED AFFILIATED ENTITIES

According to HKFRS 10 – Consolidated Financial Statements, a subsidiary is an entity that is controlled by another entity (known as the parent). An [REDACTED] controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Although our Company does not directly or indirectly own our Consolidated Affiliated

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Entities, the Contractual Arrangements as mentioned above enable our Company to exercise control over our Consolidated Affiliated Entities. Accordingly, the Consolidated Affiliated Entities are treated as subsidiaries of our Group and consolidated by our Group in the consolidated financial statements of our Group.

DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

Background of the Foreign Investment Law

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

Impact and Potential Consequences of the Foreign Investment Law on our Contractual Arrangements

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

For details of risks relating to the Foreign Investment Law, please see “Risk Factors—Risks Relating to Contractual Arrangements—If the PRC government deems that the Contractual Arrangements do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests received through the Contractual Arrangements.”

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However, there are possibilities that future laws, administrative regulations and provisions prescribed by the State Council may regard the Contractual Arrangements as a form of foreign investment, at which time it will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the then effective foreign investment access requirements and how the above-mentioned Contractual Arrangements will be handled. In addition, the specific review standards by the relevant authorities determining the Contractual Arrangements as a form of the foreign investment is unpredictable, and the interpretation or implementation ultimately adopted by the relevant authorities of the Foreign Investment Law or the Implementation Regulations for the Foreign Investment Law may be inconsistent with our PRC Legal Advisers’ understanding.

The Potential Impact to Our Company in the Worst Scenario pursuant to the Foreign Investment Law that the Contractual Arrangements Are Treated as a Foreign Investment

If the clinical genetic testing service and medical outpatient service are no longer in the Negative List and our Group can legally operate the clinical genetic testing service and medical outpatient service under PRC Laws, the WFOE will exercise the Equity Option under the Exclusive Option Agreements to acquire the equity interest in Yunkang Industry and unwind the Contractual Arrangements subject to re-approval by the relevant authorities.

If the clinical genetic testing service and medical outpatient service are in the Negative List, the Contractual Arrangements may be viewed as restricted foreign investment. Although contractual arrangements are not specified as foreign investment under the Foreign Investment Law, the Contractual Arrangements may be regarded as invalid and illegal if the future laws, administrative regulations or provisions prescribed by the State Council define contractual arrangements as a form of foreign investment and clinical genetic testing service and medical outpatient service are still in the Negative List. In the event the Contractual Arrangements in respect of the Guangzhou Clinic are treated as a foreign investment, foreign ownership in Guangzhou Clinic may be deemed to have exceeded the statutory maximum, and we may need to take further actions in order to comply with regulation requirements. In an extreme scenario, we may be required to unwind the Contractual Arrangements and dispose of our interests in Guangzhou Clinic. As a result, our Group would not be able to operate our Consolidated Affiliated Entities through the Contractual Arrangements and we would lose our rights to receive the economic benefits of our Consolidated Affiliated Entities. Accordingly, the financial results of our Consolidated Affiliated Entities would no longer be consolidated into our Group’s financial results and we would have to derecognize their assets and liabilities according to the relevant accounting standards. An investment loss would be recognized as a result of such derecognition.

Nevertheless, considering that a number of existing conglomerates are operating under contractual arrangements and some of which have obtained listing status abroad and contractual arrangements are not specified as foreign investment under the Foreign Investment Law, our Directors are of the view that it is unlikely that the relevant regulations will take retrospective effect to require the relevant enterprises to remove the contractual arrangements.

CONTRACTUAL ARRANGEMENTS

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

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

- (i) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (ii) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (iii) our Company will disclose the overall performance and compliance with the Contractual Arrangements in its annual reports to update the Shareholders and potential **[REDACTED]**; and
- (iv) our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of The WFOE and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.