

FUTURE PLANS AND USE OF [REDACTED]

FUTURE PLANS AND PROSPECTS

See “Business—Business Strategies” for a detailed description of our future plans.

USE OF [REDACTED]

We estimate that we will receive net [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED] million, after deducting [REDACTED], fees and estimated expenses borne by us in connection with the [REDACTED], and assuming an [REDACTED] of HK\$[REDACTED].

We currently intend to apply these [REDACTED] for the following purposes:

- approximately [REDACTED]%, or HK\$[REDACTED] million, will be allocated to expanding and deepening our medical institution alliance network over the next four years, primarily in Eastern China (Shanghai, Anhui, Jiangsu and Zhejiang), Central China (Hubei, Sichuan, Chongqing, Yunnan and Guizhou) and Southern China (Guangdong, Guangxi, Fujian and Hunan). We believe these are relatively developed regions where there are significant uneven distribution of medical resources, creating significant opportunities for the provision of diagnostic testing services for medical institution alliances. In anticipation of the needs for professional and standardized diagnostic services, we intend to assist in building on-site diagnostic centers, with approximately (i) [REDACTED]%, or HK\$[REDACTED] million of the [REDACTED] to be used to establish approximately 255 new pathology diagnostic centers, (ii) [REDACTED]%, or HK\$[REDACTED] million of the [REDACTED] to be used to establish approximately 255 new infectious disease diagnostic centers, and (iii) [REDACTED]%, or HK\$[REDACTED] million of the [REDACTED] to be used to establish approximately 20 new genetic disease diagnostic centers in China. These diagnostic centers do not include the 38 diagnostic center projects that were ongoing but had not yet commenced operation as the relevant hospitals were undergoing internal approval procedures as of the Latest Practicable Date. Based on our previous experiences, it normally takes two to three months for medical institutions to complete their internal approval procedures before the on-site diagnostic centers commence operations. We may also assist in establishing more than one on-site diagnostic center in different therapeutic areas at one lead hospital. The following table summarizes the types of on-site diagnostic centers in operation during the Track Record Period:

	As of December 31,				As of the Latest Practicable Date
	2018	2019	2020	2021	
Infectious disease diagnostic center	–	–	17	67	108
Pathology diagnostic center	63	109	153	175	179
Genetic disease diagnostic center	6	6	8	11	12
Routine diagnostic center	10	17	21	22	23

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The following table summarizes our current plan on new on-site diagnostic centers with the net [REDACTED] from [REDACTED]:

	Southern China				Central China				Eastern China				Total
	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025	
Pathology diagnostic center	42	42	42	39	10	10	10	7	14	14	14	11	255
Genetic disease diagnostic center	2	2	2	1	2	2	1	1	2	2	2	1	20
Infectious disease diagnostic center	52	27	27	24	24	10	10	10	19	19	19	14	255

Market Demand and Investment Payback Period

We believe that there will be sufficient market demand in these regions for on-site diagnostic centers. According to Frost & Sullivan, Eastern China, Central China and Southern China are developed areas in China with high population density. There are significant healthcare demands in these areas. In 2020, there were 2,549, 1,485 and 929 Class II hospitals in Eastern China, Central China and Southern China, respectively, which are expected to increase to 2,726, 1,915 and 1,285 in these areas in 2025, respectively, according to Frost & Sullivan. As such, the Company believes there will be sufficient demand from these hospitals to engage service providers for diagnostic testing services for medical institution alliances as compared to the conventional outsourcing model, as on-site diagnostic centers can offer timely diagnostic testing solutions and can benefit other medical institutions within the same medical institution alliances.

The initial investment amount for each pathology diagnostic center and each infectious disease diagnostic center is expected to be approximately RMB600,000 and the initial investment amount for each genetic disease diagnostic center is expected to be RMB[REDACTED] million, with [REDACTED]% of which will be used for equipment procurement and [REDACTED]% for staff training and marketing related activities, which will be borne by us. Testing equipment for each diagnostic center primarily includes PCR equipment, and mass spectrometry. For each diagnostic center, we plan to retain or recruit and train 5-10 qualified technicians, who should hold a college degree or above. We expect the annual salary for each technician will be approximately RMB100,000. Medical institutions will be responsible for providing facilities to house these diagnostic centers. Based on our previous experience, we currently expect that each of the on-site diagnostic centers will achieve investment payback within 18 months of commencement of operation in anticipation of the growing demand for diagnostic testing services for medical institution alliances in China. The projected investment payback period is made based on the assumptions that (i) the revenue for the first year generated from each medical institution alliance corresponding to an on-site diagnostic center will

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generally be in line with that during 2021; (ii) the revenue generated from medical institution alliances corresponding to these diagnostic centers will grow by 15% to 20% annually, based on our observations in newly-established on-site diagnostic centers in 2021 and (iii) the cost of revenue will account for approximately 50% to 55% of the revenue over the next five years considering (a) our gross profit margin for diagnostic testing services for medical institution alliances in 2019, 2020 and 2021 (being 49.3%, 51.9% and 52.8%) and (b) the ramp-up period for these newly-established on-site diagnostic centers, which may result in a slightly lower gross profit margin as compared to that in the last three years.

According to Frost & Sullivan, the diagnostic testing services for medical institution alliances market is expected to experience rapid growth in the future, with the number of on-site diagnostic centers in Class II and III hospitals more than doubling from 2020 to 2025. Leveraging our existing on-site diagnostic center network and established sales model, we plan to deepen our penetration in medical institution alliances and medical institutions within them. In addition, observing the market demand for different types of diagnostic testing services for medical institution alliances, we also plan to build different types of diagnostic centers within one medical institution to capture a larger market share in the future.

In 2018, 2019 and 2020, we assisted in establishing 32, 53 and 68 new on-site diagnostic centers, respectively, representing approximately 21%, 45% and 72% of the newly established on-site diagnostic centers of the total market in China for the corresponding year, according to Frost & Sullivan. In 2021, we also assisted in establishing 76 new on-site diagnostic centers. Considering that (i) our additional on-site diagnostic centers have already occupied a significant portion of the market’s newly-established on-site diagnostic centers from 2018 to 2020; (ii) being the only execution partner of CLSI’s healthcare business with the joint objectives to improve the overall performance of clinical laboratories in China; (iii) our deep and broad network of 322 on-site diagnostic centers as of the Latest Practicable Date; (iv) the high customer retention rate of the Group historically; and (v) the synergy achieved between the Company and its Controlling Shareholder, Da An Gene, a Shenzhen Stock Exchange listed PRC company specializing in the R&D, manufacturing and commercialization of testing kits and testing equipment, we believe we are able to implement our plan to develop 588 new on-site diagnostic centers in the next five years and to distinguish ourselves to capture the market opportunities.

Through these new on-site diagnostic centers, we believe we can gradually increase our market share in China’s diagnostic testing services for medical institution alliances market. Even if the market leader has already captured a significant market share, several regions, in particular lower-tiered cities in these regions, in China still lack penetration of qualified ICLs or on-site diagnostic centers, for example, Central China. Further, although several regions, such as Southern China and Eastern China in these regions have qualified ICLs or on-site diagnostic centers, the medical

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operation service market is significantly under-served in light of the large number of medical institutions in these regions. As such, we plan to deepen our penetration in these areas where the current market leader does not have sufficient presence, and gradually expand to other areas in China to capture a larger market share in the future.

- approximately [REDACTED]%, or HK\$[REDACTED] million, will be allocated to upgrading and enhancing our operational capabilities of a medical operation service provider to improve operational efficiency and digitalize testing services over the next three years. We intend to dedicate approximately
 - (i) [REDACTED]%, or HK\$[REDACTED] million, of the net [REDACTED] to developing four to five small-scale self-operated laboratories to serve regional customers in different provinces in China, including Guangdong, Hebei, Guizhou and Hunan. The following summarizes our current plan with respect to the small-scale self-operated laboratories with the net [REDACTED] from [REDACTED].
 - Guangdong: one in 2022
 - Hebei and Shandong: one in 2022 and one in 2023
 - Chongqing, Hunan and Guizhou: one in 2022 and one to two in 2023

Market Demand and Investment Payback Period

We believe there will be sufficient market demand in these provinces. These provinces generally have large populations. In 2020, population of these provinces accounted for over 30% of the total population in China with over 3,000 Class II hospitals in these provinces. According to Frost & Sullivan, the large population of these provinces and increasing number of Class II hospitals have presented significant opportunities for diagnostic outsourcing services. Developing the small-scale self-operated laboratories in these provinces can address the increase in market demand for medical operation service providers to provide diagnostic outsourcing services and diagnostic testing services for medical institution alliances. In addition, the cost of developing the small-scale self-operated laboratories is lower and the establishment is less complicated than the Group’s standard ICLs as they require lower scale of land and less resources such as staff and equipment involved. Therefore, we believe our implementation plan to develop the small-scale self-operated laboratories is feasible. In addition, even if the market leader has already captured a significant market share, several regions in China still lack of qualified ICLs or on-site diagnostic centers. Further, although the utilization rate of the Group’s existing ICLs ranges from 76% to 82% during the Track Record Period, these provinces are not currently fully covered by our existing ICLs,

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and these small-scale self-operated laboratories can strengthen our competitiveness to capture the local market demand nearby. Meanwhile, the distances from our existing ICL network enable them to achieve synergies in terms of technology and personnel supports with the six existing ICLs. For example, Guangdong ICL will support these laboratories located in Guangdong and Hunan; Kunming ICL will support these laboratories located in Guizhou; Chengdu ICL will support these laboratories located in Chongqing; Hefei ICL and the newly-established Shandong ICL will support these laboratories located in Hebei and Shandong. Through the synergies achieved by existing ICLs, the Company believes it can quickly ramp up the business of these laboratories.

According to Frost & Sullivan, driven by the aging population and increasing patient visit rates, China’s diagnostic outsourcing service market is expected to continue its growth, especially in lower-tier cities. However, laboratories needs to be located in nearby areas from the medical institutions where the test samples are collected, to ensure the accuracy of the testing results. As such, we expect that the new small-scale self-operated laboratories will supplement our six existing ICLs by providing more efficient services to regional customers nearby and we plan to further increase our sales and marketing efforts to attract medical institutions nearby for our professional and standardized diagnostic outsourcing services by leveraging our established sales model. We believe we will be capable of performing an additional one million tests per year per center after these small-scale self-operated laboratories are established.

We expect the initial investment amount for each laboratory will be approximately RMB[REDACTED] million to RMB[REDACTED] million with reference to our experiences. We will bear the costs in relation to the lease of the facilities. Generally, the initial procurement of medical devices and equipment will account for approximately [REDACTED]% to [REDACTED]% of the initial expenditure. The remaining expenditure will primarily include costs in relation to the leasing, facility and infrastructure preparation and technician recruitment. These technicians should hold a college degree or above and we expect the annual salary for each technician will be approximately RMB100,000. We expect these laboratories will commence operation in one year after we initiate the plan and achieve investment payback within the next three years. Such projected investment payback period is made based on the following assumptions: (i) the first year annual revenue for each laboratory will be approximately RMB20 million and will continue to grow by 10% annually; (ii) cost of revenue accounted for approximately 70% of the revenue for the first year and will gradually decrease to below 65% and maintain relatively stable within the next five years; and (iii) staff costs and logistics costs will continue to grow by 5% annually;

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- (ii) [REDACTED]%, or HK\$[REDACTED] million, of the [REDACTED] for the research, development and application of an intelligent imaging reading system for pathology tests. The intelligent imaging reading system will apply artificial intelligence technology for karyotype analysis and tumor pathological analysis, which will also enable us to provide more accurate pathology testing results, enabling physicians to achieve precision medicine in designing treatment plan for each patient; and
- (iii) [REDACTED]%, or HK\$[REDACTED] million, of the [REDACTED] for the research, development and application of an information technology system to better serve medical institution alliances in China. The information technology system will primarily be used for information transmission among medical institutions within the alliances;
- approximately [REDACTED]%, or HK\$[REDACTED] million, will be allocated to expanding our diagnostic capabilities and enriching our diagnostic testing portfolio with a focus on developing capabilities in key technologies over the next three years, including (i) [REDACTED]%, or HK\$[REDACTED] million, of the [REDACTED] for the procurement and application of four to six sets of mass spectrometry systems for hereditary testing and nutrient testing; (ii) [REDACTED]%, or HK\$[REDACTED] million, of the [REDACTED] for the procurement and application of five to eight sets of high-throughput sequencing systems for birth defects testing and targeted medicine testing for tumors; (iii) [REDACTED]%, or HK\$[REDACTED] million, of the [REDACTED] for the procurement and application of seven to ten sets of NGS genetic chip systems for respiratory testing and gastrointestinal testing; and (iv) [REDACTED]%, or HK\$[REDACTED] million, of the [REDACTED] for the procurement and application of seven to ten sets of digitalized PCR systems in relation to targeted medicine testing and genetic testing. These plans will enable us to further enhance our diagnostic testing capabilities, especially with respect to genetic disease diagnostic tests and pathology tests. Through this, we believe we can assist physicians in providing customized treatment plan for patients and enable them to achieve precision medicine in treatment;
- approximately [REDACTED]%, or HK\$[REDACTED] million, will be allocated to potential investment and acquisition opportunities. In order to further enhance our diagnostic testing capabilities, we may consider acquiring or investing in companies that have synergistic businesses with ours, such as upstream companies engaged in advanced diagnostic techniques, molecular biology, biotechnology and their clinical applications. We will evaluate the technology, market position, reputation and potential synergistic effect with us when making investment decisions. In general, we will only select targets that (i) have an annual revenue of over RMB20 million; (ii) have an established R&D team with over 20 personnel and industry leading diagnostic technologies, and its technologies or products have completed over 100,000 clinical applications or penetrated over 100 medical institutions; or (iii) have a broad local customer network of over 200 medical institutions. As diagnostic testing technologies are rapidly evolving and most of the companies in this area are

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private companies, we do not have specific information of the number of available targets. According to Frost & Sullivan, such investment and acquisition targets are generally available in the market. We plan to adopt different investment strategies based on the profile of the target, which mainly include minority equity investment, in-license arrangement or acquisition. For details, see “Business—Business Strategies.” We currently do not have any specific targets or targets under negotiation;

- approximately [REDACTED]%, or HK\$[REDACTED] million, will be allocated to recruiting and training up our talent pool, with a focus on management and technical personnel; including (i) [REDACTED]%, or HK\$[REDACTED] million, of the [REDACTED] to be used to recruit 10 to 14 technician teams (each comprising 20 to 50 employees in bio-informatics, genetics and information technology infrastructure. Unlike technicians we plan to recruit for our laboratories, these technicians will be responsible for (a) enhancing our diagnostic capabilities with latest diagnostic techniques and (b) maintaining and upgrading IT infrastructure for the operation of our diagnostic testing services for medical institution alliances during the next five years. For these technicians, we expect them to hold bachelor’s degree or above with an annual salary of RMB300,000 to RMB400,000; and (ii) [REDACTED]%, or HK\$[REDACTED] million, of the [REDACTED] to be used for our collaboration with Sun Yat-sen University to enroll more students and expand the curriculum offerings at Yunkang College. We plan to expand at least one more curriculum at Yunkang College and enroll at least 50 more students each year and invest RMB3 million per year for education equipment. We also plan to recruit at least four faculty staff for each new curriculum at Yunkang College; and
- approximately [REDACTED]%, or HK\$[REDACTED] million, will be used for our working capital and general corporate purposes.

We will not receive any of the [REDACTED] from the sale of [REDACTED] by the [REDACTED] in the [REDACTED]. The [REDACTED] estimate that they will receive, in aggregate, [REDACTED] from the [REDACTED] of approximately HK\$[REDACTED] million, assuming an [REDACTED] of HK\$[REDACTED].

If the [REDACTED] is exercised in full, the [REDACTED] that we will receive will be approximately HK\$[REDACTED] million, assuming an [REDACTED] of HK\$[REDACTED]. In the event that the [REDACTED] is exercised in full, we intent to apply the additional [REDACTED] to the above purposes in the proportions stated above.

To the extent that the [REDACTED] are not immediately applied to the above purposes and to the extent permitted by the relevant law and regulations, so long as it is deemed to be in the best interests of our Company, we may hold such funds in short-term deposits with licensed banks or authorized financial institutions in Hong Kong. We will make an appropriate announcement if there is any change to the above proposed use of [REDACTED].