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Mega Genomics Limited
美因基因有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 6667)

INSIDE INFORMATION
KEY FINDINGS OF THE INDEPENDENT FORENSIC
INVESTIGATION
AND
CONTINUED SUSPENSION OF TRADING

This announcement is made by Mega Genomics Limited (the “Company”, together with its subsidiaries, the “Group”) pursuant to Rule 13.09(2)(a) of the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to the announcements of the Company dated 1 April 2025, 22 April 2025, 30 April 2025, 5 May 2025, 30 May 2025, 30 June 2025, 29 August 2025 and 30 September 2025 (the “Announcements”) in relation to, among other matters, (i) delay in publication of the 2024 Annual Results and 2025 Interim Results, (ii) postponement of the Board meeting, (iii) delay in publication of the 2024 Annual Report and 2025 Interim Report, (iv) proposed change of the auditor, (v) resumption guidance from the Stock Exchange; and (vi) quarterly update on resumption guidance. Unless otherwise defined or the context otherwise requires, capitalised terms in this announcement shall have the same meanings as defined in the Announcements.

I. BACKGROUND

As disclosed in the announcement of the Company dated 30 May 2025, the Company received the Resumption Guidance issued by the Stock Exchange on 23 May 2025. Accordingly, the Company is required to conduct an appropriate independent forensic investigation into various Audit Issues, assess the impact on the Company's business operation and financial position, announce the findings, and take appropriate remedial actions.

As disclosed in the announcements of the Company dated 22 April 2025 and 30 June 2025, the Board has resolved to establish the Investigation Committee. The Investigation Committee has engaged an independent investigation company to commence an independent investigation.

The independent investigation company, i.e., Grant Thornton Advisory Services Limited, has submitted an independent forensic investigation report (the "Investigation Report") to the Investigation Committee. The Investigation Committee has reviewed the Investigation Report and submitted it to the Board for consideration, together with its views and recommendations. However, it is subject to the review and satisfaction of the Stock Exchange to fulfill one of the requirements under the Resumption Guidance.

The purpose of this announcement is to provide the shareholders and potential investors of the Company with the key findings of the independent forensic investigation, as well as the views and responses of the Investigation Committee and the Board.

II. SCOPE OF THE INVESTIGATION

The scope of the independent forensic investigation is as follows:

- (1) Revenue recognition from receipts in advance for genetic testing kits (the "Genetic Kits"): Investigation on the reasonableness of the related revenue recognition treatment regarding the matter of the Group's conversion of receipts in advance for certain Genetic Kits, which were classified as (i) the Genetic Kits that were already delivered to customers but not yet used for testing ("Collected but Untested Revenue") and (ii) the Genetic Kits that were not yet delivered to the customers ("Uncollected Revenue"), to revenue in 2024 due to the expiration of contracts, and the commercial reasons and substances of such transactions. Additionally, the investigation also considered the perspective of the Company's then-auditors, namely that the genetic testing kits business constituted the Group's primary source of revenue, with a significant portion of such revenue involving transactions with related parties. ("Matter I")

- (2) Promotional fees: Investigation on the authenticity and commercial rationale of the Group's promotional fees and related prepayments in 2024, as well as the reasonableness of the Group's selling expenses, and the commercial reasons and substances of such transactions. ("Matter II")

III. PROCEDURES PERFORMED FOR THE INDEPENDENT FORENSIC INVESTIGATION REPORT

The independent investigation company has carried out the following investigation procedures:

- (1) Document review: obtained and reviewed relevant documents and records of the Group;
- (2) Interviews: conducted interviews with relevant personnel (including the Group's personnel and external parties);
- (3) Independent background checks: performed independent background checks on relevant personnel and entities (including the Group's personnel, major customers, and promoters);
- (4) Confirmations and site visits: obtained confirmations from relevant entities (including major customers and promoters), and conducted site visits to the store locations of selected major customers;
- (5) Specific internal control assessment: obtained and reviewed the Company's relevant internal control policies and procedures; and
- (6) Computer forensics review: obtained the images of the relevant personnel's company electronic devices and emails, and performed computer forensic procedures, including conducting keyword searches to identify relevant documents.

IV. KEY FINDINGS OF THE INDEPENDENT FORENSIC INVESTIGATION

Based on the procedures carried out during the independent forensic investigation and subject to the limitations set forth in the section “Limitations of the Investigation” below, the key findings of independent forensic investigation into the aforementioned matters are summarized as follows:

Matter I

The Group’s customers are mainly health checkup centers and medical institutions. The relevant Genetic Kits sales contracts specified a “payment before delivery” payment model. Additionally, the contracts also stated that if the customers failed to use the Genetic Kits within the term of the contracts, the payments made will not be refunded, and the relevant testing services will no longer be provided. Furthermore, each Genetic Kit included a user service guide. This guide also specified that end customers (i.e., the natural person who actually uses the Genetic Kits to collect and test samples) shall return samples within the effective period of the testing service. Failure to do so will prevent sample log-in and testing. The effective period of the testing service indicated on the Genetic Kits aligns with the expiry date of the contract signed between the Group and the customers. The Group recorded prepayments upon receipt. For the Genetic Kits testing services, the Group recognised relevant revenue in the month the testing reports were issued. At the end of the year when contracts expired, the Group calculated the amounts of revenue of the Genetic Kits that were not yet collected and for which reports have not been issued (i.e., Uncollected Revenue) based on the customer’s prepayment amounts and the quantity of the Genetic Kits collected. Meanwhile, for Genetic Kits that have been collected and whose contracts have expired, by calculating the difference between the number of Genetic Kits collected and the number of reports issued, the Group identified the portion of the amounts of the Genetic Kits collected but for which reports have not yet been issued (i.e., Collected but Untested Revenue). Ultimately, the Group combined the aforementioned Uncollected Revenue arising from expiration of contracts at year-end and Collected but Untested Revenue and recognised it as current-period revenue.

Additionally, some Genetic Kits were sold to end customers by customers as promotional gifts or in a bundle of health check packages. Consequently, end customers may choose to collect the Genetic Kits without using them, resulting in the Genetic Kits not undergoing testing. Given the characteristics of the Genetic Kits business model, whether end customers utilize the Genetic Kits is beyond the control of either the Company or its customers, and neither party is obligated to remind end customers to initiate testing. Based on interviews with the customers, their downstream customers are primarily groups and institutions. The distribution arrangements for Genetic Kits by these institutions and the lack of proactive testing behavior among non-paying end customers could have contributed to the relatively high proportion of untested Genetic Kits revenue in 2024.

For Uncollected Revenue, the Group stated that some customers may have misestimated the sales volume or the popularity of certain type of Genetic Kits, and some end customers have not collected the Genetic Kits from the customers, resulting in the customers decided not to collect all of the Genetic Kits they have ordered from the Group based on their existing inventory and limited storage space, and therefore contributed to the existence of uncollected Genetic Kits. The Group indicated that the collection timing of the Genetic Kits depends on end customers' arrangements, leading to situations where customers decided not to collect the purchased Genetic Kits after the expiry date.

The Board understands that, the independent investigation company considered that through comprehensive discovery and inquiry procedures, and subject to the limitations set forth in the "Limitations of the Investigation", the evidence and information obtained by the independent investigation company were consistent, and that the Group's explanation regarding Matter I was not evidently unreasonable.

In addition, the independent forensic investigation discovered that the terms of extension contracts for certain customers overlapped with those of newly signed contracts. The Group stated that it understands some customers may negotiate with the Group based on business needs to extend contracts expiring in 2024 until no later than the end of December. In this regard, contract extensions will not affect the financial year in which relevant revenue is recognised. Furthermore, the Group also considered the long-term cooperative relationships with relevant customers and signed contracts spanning both 2024 and 2025 with certain relevant customers. The Company stated that its related party, Meinian Onehealth Healthcare Holdings Co., Ltd. ("Meinian Onehealth Healthcare"), is the largest private health checkup center in China, collaborating with various healthcare companies. As its long-term strategic partner, the Group leveraged its technological and industry strengths for mutual development. Meinian Onehealth Healthcare's position as China's largest private health checkup center and its extensive industry resources provided the Group with a stable business foundation and constituted one of its core revenue sources. The terms of the Genetic Kits contracts entered into between the Group and its related party were substantially similar to those with other customers. The related party transactions of the Group have been approved on the shareholders' meeting, and the Board of Directors of the Company considered these transactions to be lawful and compliant.

Contracts for certain customers originally due in July 2024 were extended to the end of December that year. Concurrently, these customers also signed contracts that are due in 2025 in the second half of 2024, resulting in overlapping contracts. The overlapping contract for certain customers are sales of similar-category products, primarily differing in product expiration dates. Products under extended contracts expire in December 2024, while new contracts products signed in the second half of 2024 expire in 2025. Contract overlaps led the Group to erroneously reclassified prepayments due in 2025 for certain customers as untested revenue in 2024. However, the relevant prepayments actually pertained to another contract scheduled to expire in 2025, involving approximately RMB16.5 million. Consequently, the independent investigation company recommended that the Group's revenue for 2024 be adjusted accordingly. This primarily resulted from the Group's finance personnel failing to fully understand the situation with the customers, inadequate communication with sales personnel, and unclear handover procedures during employee turnover. The Board understands that, through comprehensive discovery and inquiry procedures, the evidence and information obtained by the independent investigation company were consistent.

Matter II

Due to concerns raised by the then auditor of the Company in March 2025 regarding the reasonableness of the Group's promotional fees, the Group, due to time constraints, provided the then auditor of the Company with only approximately 140 communication records and photos between promoters and customers. Subsequently, the Group provided over 600 communication documents to the independent investigation company concerning this matter.

The independent investigation company considered that the root cause of the issue primarily lied in the Group's launch of its new Genetic Kits business in mid-2023. As Genetic Kits were new products, the Group wished to rapidly capture market share and consequently partnered with third-party promoters for Genetic Kits promotion. For these promoters, the Group primarily focused on their promotional effectiveness and outcomes, namely the actual sales performance the promoters generated for the Group.

The Company stated that as the Genetic Kits were innovative products, it required experienced sales personnel with established channels to rapidly capture market share. At that time, the Group had a limited sales team which was insufficient to support its sales and promotion needs. Additionally, due to the significant differences between the Genetic Kits and traditional genetic testing products, the Group's existing sales personnel would need to acquire entirely new business knowledge. Consequently, the Group would also need to invest substantial resources in employee training. The effectiveness of such training was difficult to guarantee, and the time required for training will not be short, potentially causing the Group to miss the opportunity for rapid market capture. Considering the above factors, the Group concluded that

partnering with third-party promoters represented the optimal solution after considering the associated costs and uncertainties. This approach would not only reduce labor costs but also reduce operational risks and enhance resource efficiency. The Group's prepayment arrangements were consistent with its promotional strategy at the time. Furthermore, the Group did not require promoters to target related parties or specific customers. The promoters' sales targets were based on actual sales rather than the number of customers. The Group also aimed to develop sales channels through Meinian Onehealth Healthcare and other customers. However, given that Meinian Onehealth Healthcare is the largest private health checkup center in China with more extensive customer resources, promotions through Meinian Onehealth Healthcare demonstrate higher efficiency and better results. Therefore, the major promoters focused on promoting Meinian Onehealth Healthcare with more abundant resources, while also exploring other channels.

In 2023, there were approximately 30 customers related to Genetic Kits revenue, and over 200 new customers related to Genetic Kits revenue were added in 2024. Revenue from Genetic Kits also increased from approximately RMB1.5 million to over RMB100 million during the same period, indicating a certain correlation between promotional activities and sales growth. The independent investigation company obtained various evidence materials from the Company, including communication records between the Group and its major promoters, records between such promoters and the customers, and on-site promotional photos. The Board understands that, based on the relevant documents and interview results, the independent investigation company considered that, through comprehensive findings and inquiry procedures, and subject to the limitations set forth in the "Limitations of the Investigation" section, the evidence and information obtained by the independent investigation company were consistent. Therefore, the independent investigation company considered that the Group's statements regarding the Genetic Kits promotion strategy was not evidently unreasonable, and that the promoters had carried out the relevant promotional activities.

Regarding the reasonableness of the promotional fees, the independent investigation company understood that the Group calculated promotional fees payable to promoters based on the proportion of promoted customer payments or revenue (applicable to Genetic Kits promoters) and the corresponding unit service fee for individual products actually purchased by customers (applicable to non-Genetic Kits promoters). Furthermore, according to the analysis of the independent investigation company, the Company's selling expense ratio was lower than that of other comparable companies in the same industry (the Group's selling expense ratio in 2024 was approximately 23%, while the average ratio for other comparable companies ranged from approximately 31% to 56%).

Regarding the advance promotional fees, the then auditor of the Company raised concerns about the Group's advance promotional fees payments to two major promoters, which were higher than other promoters. The Group entered into three-year service contracts with these two major promoters, which required higher upfront costs due to their commitment to higher sales targets and broader geographical coverage. Additionally, as Genetic Kits were newly launched products, promoters needed to incur substantial expenses for communication, design, and labor during the initial promotion phase. Therefore, the Group accepted the terms of prepaying promotional fees to the two major promoters, resulting in a total payment amount higher than that paid to other promoters. The sales targets agreed upon under the promotion service contracts for the two promoters were RMB120 million and RMB80 million, respectively. If these two promoters achieve their respective agreed sales targets within the contract validity period, the relevant service fees shall be calculated at 25% of the actual sales amount; if the aforementioned sales targets are missed, the service fees shall be calculated at 5% of the actual sales amount. Unlike the aforementioned agreements on service fee rate, the contract also explicitly stipulated terms for advance service fees, whereby the Group shall pay these two promoters an advance service fee not exceeding 20% of their respective sales targets. The aforementioned 20% represented only the maximum percentage limit for advance service fees.

The independent investigation company understood that these two major promoters, who received advance promotional fees, promoted over 200 customers, equating to an average prepayment of approximately RMB90,000 per promoted customer. And the prepayments the Group paid in 2024 did not exceed the limit set forth in the service agreements. Furthermore, the Group did not make a lump-sum prepayment for the fees covering the next three years. Instead, it paid the promotional fees in installments based on the progress of the promotion and established a refund clause simultaneously.

The Board understands that, the independent investigation company considered that through comprehensive discovery and inquiry procedures, and subject to the investigative limitations set forth in the "Limitations of the Investigation" section, the evidence and information obtained by the independent investigation company were consistent. Therefore, it considered that the Group's statements regarding the arrangement for advance promotional fees (including the amounts and prepayment method) did not appear to be significantly unreasonable.

V. LIMITATIONS OF THE INVESTIGATION

The Company did not impose any unreasonable restrictions during the independent forensic investigation. However, due to limitations in the scope of the investigation or objective factors beyond the Company's control, the following limitations limited the extent of the independent investigation company's investigation:

- (1) The independent forensic investigation was conducted based on the voluntary cooperation of the Group and relevant personnel. The independent investigation company could not fully verify the representations made by interviewees during the investigation process, nor could it ensure that the investigation findings were without errors or omissions. Except for documents marked as verified in the Investigation Report, the independent investigation company could not verify the authenticity of all documents provided.
- (2) The independent investigation company failed to contact certain individuals who held positions within the Company at the relevant time (including a then Director of the Company) for interviews. In addition to being unable to arrange interviews with certain personnel of the Company, mainly because they had resigned and declined to be interviewed, the independent investigation company was also unable to arrange an interview with the then auditor of the Company.
- (3) As the Company did not assign a company computer to a Director, the independent investigation company was unable to conduct computer forensic procedures on that Director's computer.
- (4) The independent investigation company conducted individual searches on the Company's Directors, senior management, and directors of other relevant entities through the Hong Kong Companies Registry and independent third party information agencies. As the Hong Kong Companies Registry could only provide records of an individual's directorships in a company where he/she currently holds position, the independent investigation company was unable to obtain search results regarding an individual's shareholdings in companies incorporated in Hong Kong or companies where they had previously served as directors. Furthermore, during the course of individual searches, the independent investigation company encountered multiple individuals with identical names in the search results. Given that the independent investigation company lacked additional personal information (such as identity card numbers) for certain individuals to differentiate between search results, it was unable to identify the relevant individuals amongst the numerous search results.

To mitigate the impact of these limitations, the independent investigation company implemented additional and alternative procedures. For example, as an alternative procedure to the inability to interview the Company's then personnel, the independent investigation company conducted computer forensic procedures on their electronic devices or reviewed their relevant job description documents and accounting vouchers. Furthermore, as the Company did not assign a company computer to a certain Director, the independent investigation company also conducted computer forensic procedures on that Director's email. These measures were designed to ensure the thoroughness and reliability of the independent investigation, thereby minimizing any potential impact on the overall findings.

Opinions on the Investigation Report from the Investigation Committee and the Board

The Investigation Committee and the Board have reviewed the Investigation Report. The Investigation Committee after due consideration is of the view that the contents and findings of the Investigation Report are reasonable and acceptable. And the Investigation Committee has recommended the Board to adopt the findings of the independent forensic investigation.

The Board has reviewed the contents and findings of the Investigation Report. The Board considers that, subject to the aforementioned limitations, the contents and findings of the Investigation Report are reasonable and acceptable, and has resolved to adopt the findings of the Investigation Report. After reviewing the investigation report, the Investigation Committee and the Board of Directors also concluded that the independent investigation company had performed all necessary investigation procedures within a reasonable scope, and that the relevant issues raised by the then auditor had been adequately resolved. Based on the forensic investigation procedures conducted by the independent investigation company and the evidence currently obtained, the independent investigation company has not identified any evidence of misconduct (involving fraud) conducted by the management. The issues identified by the independent investigation company primarily relate to the implementation of internal controls and operational procedures, and corrective actions have been initiated. Therefore, the Investigation Committee and the Board of Directors also believed that, based on the findings from the independent investigation institution and the current evidence, the integrity, competence, and/or character of the Group's current management and/or persons with significant influence over the Company's current management and operations do not pose a risk to investors and will not undermine market confidence.

Furthermore, the Board has engaged an external independent adviser (Grant Thornton Advisory Services Limited) to conduct an internal control review to assess the effectiveness and efficiency of the Group's internal control environment and to provide the Company with recommendations for improvement and/or remedial measures to address weaknesses and deficiencies in the internal control system identified during the internal control review. The Company is working with the external independent adviser to prepare an internal control report and will disclose the findings of such report as soon as practicable.

Implications on the Operation and Financial Position of the Company

Pursuant to the Board's assessment, and taking into account the above findings of the independent investigation company, the Board considers that the Group's operation and running of business remain normal, and has made corresponding adjustment to the revenue for the year of 2024. Neither Matter I nor Matter II poses any material adverse impact on the financial position of the Group, and the findings of the independent forensic investigation will not have any material adverse impact on the operation and financial position of the Group as of the date of the announcement.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 1 April 2025 and will remain suspended until further notice. Further announcement(s) will be made by the Company as and when appropriate and in accordance with the Listing Rules.

Shareholders and prospective investors are advised to exercise caution when dealing in the shares of the Company.

By Order of the Board
Mega Genomics Limited
LIN Lin
Executive Director and Chairperson

Hong Kong, 10 November 2025

As of the date of this announcement, the executive Directors are Dr. Yu Rong, Ms. Lin Lin and Ms. Jiang Jing; the non-executive Director is Ms. Guo Meiling; and the independent non-executive Directors are Dr. Zhang Ying, Mr. Jia Qingfeng and Dr. Xie Dan.

* For identification purpose only