Yunkang Group Limited
云康集团有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2325)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2024

The board (the "**Board**") of directors (the "**Directors**") of Yunkang Group Limited (the "**Company**" or our "**Company**", together with its subsidiaries and consolidated affiliated entities, the "**Group**" or our "**Group**") is pleased to announce the unaudited condensed consolidated results of the Group for the six months ended June 30, 2024 (the "**Reporting Period**"), which have been reviewed by the Company's audit committee (the "**Audit Committee**") and approved by the Board on August 28, 2024.

In this announcement, "we", "us" and "our" refer to the Company and where the context otherwise requires, the Group. Certain amounts and percentage figures included in this announcement have been subject to rounding adjustments, or have been rounded to one or two decimal places. Any discrepancies in any table, chart or elsewhere between totals and sums of amounts listed therein are due to rounding.

FINANCIAL HIGHLIGHTS

	Six months ended June 30,		
	2024	2023	Change
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	
Revenue	**379,943**	476,865	(20.3)%
– Diagnostic testing services for medical institution alliances	**182,272**	197,876	(7.9)%
– Diagnostic outsourcing services	**179,614**	254,438	(29.4)%
– Diagnostic testing services for non-medical institutions	**18,057**	24,551	(26.5)%
Cost of revenue	**(251,745)**	(295,200)	(14.7)%
Gross profit	**128,198**	181,665	(29.4)%
(Loss)/profit before income tax	**(131,775)**	50,809	N/A
(Loss)/profit for the period	**(126,055)**	48,027	N/A
(Loss)/profit attributable to owners of the Company:	**(126,129)**	48,715	N/A

	Six months ended June 30,		
	2024	2023	Change
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	
(Loss)/earnings per share for profit attributable to owners of the Company			
Basic	**(0.21)**	0.08	N/A
Diluted	**(0.21)**	0.08	N/A

During the Reporting Period, the Group recorded a revenue of RMB379.9 million, representing a decrease of 20.3% compared to the same period in 2023, of which, the revenue from diagnostic testing services for medical institution alliances decreased by 7.9% compared to the same period in 2023, the revenue from diagnostic outsourcing services decreased by 29.4% compared to the same period in 2023, and the revenue from diagnostic testing services for non-medical institutions decreased by 26.5% compared to the same period in 2023.

The decrease was mainly driven by changes in the overall economic environment, the profound reform in the medical service market and fierce market competition. During the Reporting Period, the growth in demand for routine testing services was slower than anticipated and the price of routine testing dropped due to market influence, which resulted in a decline in overall revenue from diagnostic testing services as compared to the same period last year. Nevertheless, without considering the impact of revenue from phased testing and screening services nationwide at the beginning of 2023, the diagnostic testing services segment provided by the Group for medical institution alliances maintained high-quality growth.

During the Reporting Period, the Group recorded a net loss of RMB126.1 million, as compared to a net profit of RMB48.0 million for the same period in 2023, mainly due to the following reasons:

1) during the Reporting Period, the decrease in overall revenue from diagnostic services and higher fixed costs resulted in a decline in gross profit margin and improminent economies of scale; and

2) during the Reporting Period, the Group recorded a significant amount of provision for impairment as certain trade receivables of the Group had a long recovery period and the recovery progress was slower than anticipated.

In the short term, changes in the macro-environment has brought temporary difficulties and challenges to the medical industry and the Group. However, in the long term, the growing demand for medical and health services driven by changes in the demographic structure, our country's great emphasis on public health and the healthcare industry and the continuous release of favorable policies, as well as the advancement and extensive application of innovative medical technologies, will provide numerous development opportunities for the healthcare service industry.

The Group has always adhered to promoting development through innovation and overcoming challenges with resilience. In response to the multiple difficulties, challenges and development opportunities brought by the macro-environment, the Group continues to deeply implement its overall business philosophy of "in-depth services and lean operations". On one hand, the Group continues to deepen its understanding and response to the needs of medical institution customers and continues to explore new methods and modes to improve medical service capabilities and efficiency together with its customers, so as to lay a solid foundation for long-term development. On the other hand, the Group will further improve the mechanisms and processes of corporate operation and management, optimize production capacity layout and eliminate redundancies, and adhere to lean operations through utilizing the rapidly developing digital technologies, in order to achieve a high-quality growth after short-term market adjustments by building an efficient operational system.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2024

	Notes	For the six months ended June 30, 2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Continuing operations			
Revenue	*4*	**379,943**	476,865
Cost of revenue		**(251,745)**	(295,200)
Gross profit		**128,198**	181,665
Selling expenses		**(89,945)**	(86,874)
Administrative expenses		**(99,706)**	(80,512)
Net impairment losses on financial assets		**(52,447)**	(4,274)
Other income		**1,034**	6,052
Other gains, net	*5*	**6,590**	31,091
Fair value changes on financial assets at fair value through profit or loss		**(1,241)**	18,713
Operating (loss)/profit		**(107,517)**	65,861
Finance costs, net	*6*	**(24,258)**	(15,052)
(Loss)/profit before income tax		**(131,775)**	50,809
Income tax credit/(expenses)	*7*	**5,720**	(2,782)
(Loss)/profit for the period		**(126,055)**	48,027
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss:			
– Change in the fair value of financial assets at fair value through other comprehensive income, net of tax		**–**	–
Total comprehensive (loss)/income for the period		**(126,055)**	48,027

	Notes	For the six months ended June 30, 2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
(Loss)/profit attributable to:			
– Owners of the Company		**(126,129)**	48,715
– Non-controlling interests		**74**	(688)
		(126,055)	48,027
Total comprehensive (loss)/income attributable to:			
– Owners of the Company		**(126,129)**	48,715
– Non-controlling interests		**74**	(688)
		(126,055)	48,027
(Loss)/earnings per share for (loss)/profit attributable to the owners of the Company	*8*		
Basic and diluted *(RMB)*		**(0.21)**	0.08

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2024

	Notes	**As at June 30, 2024** ***RMB'000*** **(Unaudited)**	As at December 31, 2023 *RMB'000* (Audited)
Non-current assets			
Property and equipment		**369,288**	396,921
Intangible assets		**2,530**	3,368
Prepayments and other receivables	*10*	**5,509**	4,788
Financial assets at fair value through other comprehensive income ("**FVOCI**")		**79,508**	74,508
Financial assets at fair value through profit or loss ("**FVTPL**")		**163,115**	162,354
Deferred income tax assets		**52,220**	51,832
		672,170	693,771
Current assets			
Inventories		**15,544**	18,021
Trade receivables	*9*	**1,355,058**	1,515,500
Prepayments and other receivables	*10*	**19,106**	28,557
Financial assets at FVTPL		**414,314**	626,608
Restricted cash		**304,201**	405,475
Cash and cash equivalents		**1,289,831**	1,244,120
		3,398,054	3,838,281
Current liabilities			
Borrowings		**977,772**	1,154,247
Trade and other payables	*11*	**926,316**	975,484
Current income tax liabilities		**35,188**	42,784
Lease liabilities		**13,092**	16,116
		1,952,368	2,188,631

	Notes	As at June 30, 2024 RMB'000 (Unaudited)	As at December 31, 2023 RMB'000 (Audited)
NET CURRENT ASSETS		**1,445,686**	1,649,650
Non-current liabilities			
Borrowings		**171,570**	193,594
Lease liabilities		**15,293**	25,882
Deferred income tax liabilities		**4,955**	4,088
		191,818	223,564
NET ASSETS		**1,926,038**	2,119,857
Equity			
Share capital and share premium		**610,390**	621,314
Shares held for employee share scheme		**(263,056)**	(188,524)
Other reserves		**947,384**	929,692
Retained earnings		**623,541**	749,670
Non-controlling interests		**7,779**	7,705
		1,926,038	2,119,857

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2024

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on July 20, 2018 as an exempted company with limited liability under the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company is an investment holding company, and its subsidiaries are primarily engaged in the provision of diagnostic testing services in the People's Republic of China (the "**PRC**" or "**China**").

The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on May 18, 2022 (the "**Listing**").

These financial statements are presented in Renminbi ("**RMB**"), unless otherwise specified.

These unaudited condensed consolidated financial statements have been approved by the Board of Directors on August 28, 2024.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial statements of the Group for the six months ended June 30, 2024 have been prepared in accordance with the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and Hong Kong Accounting Standard 34 Interim Financial Reporting ("**HKAS 34**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

This financial information does not include all the notes of the type normally included in an annual report. Accordingly, this report should be read in conjunction with the Group's consolidated financial statements for the year ended December 31, 2023, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") as issued by the HKICPA and any public announcements made by the Group during the interim reporting period.

The accounting policies applied in the preparation of this financial information are generally consistent with those applied in the previous financial year and the corresponding interim reporting period, except for the adoption of amended standards as set out below.

(a) Amended standards and interpretations adopted by the Group

The following amendments to existing standards are mandatory for accounting periods beginning on or after January 1, 2024. The adoption of these amendments to existing standards did not have any material impact on the results and financial position of the Group:

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current
Amendments to HKAS 1	Non-current Liabilities with Covenants
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback

(b) New standards, amendments and interpretations to standards issued but not yet effective

The following new and revised standards have been issued but are not effective for financial periods beginning on or after January 1, 2024 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Amendments to HKAS 21	Lack of Exchangeability	January 1, 2025
Amendments to HKFRS 9 and HKFRS 7	Amendments to the Classification and Measurement of Financial Instruments	January 1, 2026
HKFRS 18	Presentation and Disclosure in Financial Statements	January 1, 2027
HKFRS 19	Subsidiaries without Public Accountability	January 1, 2027
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Company expects that the application of all other new HKFRSs and amendments thereto will have no material impact on the consolidated financial statements in the foreseeable future.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the interim financial information in accordance with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses.

In preparing the interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied in the Group's consolidated financial statements for the year ending December 31, 2023.

4 SEGMENT AND REVENUE INFORMATION

(a) Segment Description

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("**CODM**"). The CODM has been identified as the executive director of the Company who makes strategic decisions and is responsible for allocating resources and assessing the performance of the operating segments.

The principal operating entities of the Group are domiciled in the PRC. Accordingly, all of the Group's revenue were derived in the PRC during the six months ended June 30, 2024 (2023: same).

(b) Revenue by business line

	For the six months ended June 30,	
	2024	2023
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Recognized at a point in time:		
Diagnostic services	**379,943**	476,865

The Company is domiciled in the Cayman Islands while the Group's non-current assets and revenues are substantially located in and derived from the PRC, respectively.

(c) Information about major customers

All revenue from single external customers was less than 10% of the Group's total revenue for the six months ended June 30, 2024 (2023: same).

(d) Unsatisfied performance obligations

For diagnostic testing services, they are rendered in short period of time, which is generally within hours or a couple of days. These unsatisfied performance obligations are immaterial and the Group has elected the practical expedient that does not require disclosure of the remaining performance obligations for these types of contracts.

5 OTHER GAINS, NET

	For the six months ended June 30,	
	2024	2023
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Gain on redemption of financial assets at FVTPL	**2,369**	22,225
Gains on disposal of property and equipment	**3,282**	743
Exchange gain, net	**863**	9,179
Others	**76**	(1,056)
	6,590	31,091

6 FINANCE COSTS, NET

	For the six months ended June 30,	
	2024	2023
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Finance income		
Bank interest income	**3,628**	2,960
Finance costs		
Interest on interest-bearing borrowings	**(25,831)**	(16,039)
Interest on lease liabilities	**(820)**	(1,973)
Other finance costs	**(1,235)**	–
	(27,886)	(18,012)
Finance costs, net		
	(24,258)	(15,052)

7 INCOME TAX CREDIT/(EXPENSES)

	For the six months ended June 30,	
	2024	2023
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax	**(213)**	(5,054)
Deferred income tax	**5,933**	2,272
	5,720	(2,782)

The Group's principal applicable taxes and tax rates are as follows:

Cayman Islands

Under the prevailing laws of the Cayman Islands, the Company is not subject to tax on income or capital gains. In addition, no Cayman Islands withholding tax is payable on dividend payments by the Company to its shareholders.

Hong Kong

Hong Kong profits tax rate is 16.5%. Since April 1, 2018, the two-tiered profits tax regime took effect, under which the tax rate is 8.25% for assessable profits on the first HK$2 million and 16.5% for any assessable profits in excess of HK$2 million. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax during the six months ended June 30, 2024 (2023: same).

PRC corporate income tax ("CIT")

CIT was made on the estimated assessable profits of the entities within the Group incorporated in the PRC and was calculated in accordance with the relevant tax rules and regulations of the PRC after considering the available tax refunds and allowances. The general CIT rate is 25% for the six months ended June 30, 2024 (2023: same).

Certain of the Group's entities in the PRC, which generated most of the Group's profit, have been approved as high technology enterprises under the relevant tax rules and regulations, and accordingly, are subject to a reduced preferential CIT rate of 15% as at June 30, 2024 (2023: same).

Certain of the Group's entities in the PRC meet the standards for small enterprises under the relevant tax rules and regulations, and accordingly, the part of their taxable profit not exceeding RMB3 million are subject to a reduced CIT rate of 20%.

8 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the six months ended June 30, 2024, less the shares held under the restricted share unit scheme adopted by the Company on November 23, 2022 (the "**2022 RSU Scheme**") during the same period of approximately 22,796,346 shares (2023: 15,101,643).

	For the six months ended June 30,	
	2024	2023
	(Unaudited)	(Unaudited)
(Loss)/profit attributable to owners of the Company *(RMB'000)*	**(126,129)**	48,715
Weighted average number of ordinary shares in issue less shares held under the 2022 RSU Scheme	**600,602,161**	619,248,072
Basic (loss)/earnings per share attributable to the owners of the Company *(expressed in RMB per share)*	**(0.21)**	0.08

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The Company has no dilutive potential shares in issue during the six months ended June 30, 2024 and 2023. Therefore, the diluted (loss)/earnings per share for the six months ended June 30, 2024 and 2023 are the same as basic (loss)/earnings per share of the respective periods.

9 TRADE RECEIVABLES

	As at June 30, 2024 *RMB'000* **(Unaudited)**	As at December 31, 2023 *RMB'000* (Audited)
Trade receivables		
– Third parties	**1,743,483**	1,850,931
– Related parties	**578**	477
	1,744,061	1,851,408
Less: allowance for impairment of trade receivables	**(389,847)**	(337,619)
	1,354,214	1,513,789
Bill receivables	**844**	1,711
	1,355,058	1,515,500

(a) As at June 30, 2024 and December 31, 2023, the aging analysis of the trade receivables based on recognition date is as follows:

	As at June 30, 2024 *RMB'000* **(Unaudited)**	As at December 31, 2023 *RMB'000* (Audited)
Up to 180 days	**285,807**	269,570
181 days to 1 year	**208,457**	264,210
1 to 2 years	**877,567**	1,194,507
2 to 3 years	**329,992**	98,027
More than 3 years	**42,238**	25,094
	1,744,061	1,851,408

(b) The Group's trade receivables were denominated in RMB and their carrying amounts approximated their fair values.

10 PREPAYMENTS AND OTHER RECEIVABLES

	As at June 30, 2024	As at December 31, 2023
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Included in current assets		
Prepayments		
– Prepayments to third party suppliers	**5,027**	6,583
– Other tax recoverable	**2,657**	2,982
	7,684	9,565
Other receivables		
Monies kept in restricted share units trustee	**2,745**	4,517
Deposits receivable	**6,041**	12,591
Cash advance to employees	**1,578**	710
Amounts due from related parties	**1,415**	1,535
	11,779	19,353
Less: allowance for impairment of other receivables	**(357)**	(361)
	11,422	18,992
	19,106	28,557
Included in non-current assets		
Prepayments		
– Prepayments for equipment from third party suppliers	**2,178**	2,592
Other receivables		
– Deposits	**3,331**	2,196
	5,509	4,788
Total	**24,615**	33,345

(a) The Group's other receivables were denominated in RMB and their carrying amounts approximated their fair values.

11 TRADE AND OTHER PAYABLES

	As at June 30, 2024 *RMB'000* **(Unaudited)**	As at December 31, 2023 *RMB'000* (Audited)
Trade payables *(note (a))*		
– Third parties	**166,818**	190,937
– Related parties	**620,950**	624,898
	787,768	815,835
Other payables		
– Related parties	**28,523**	35,148
– Marketing and promotion expenses payables	**6,975**	4,410
– Decoration expenses payables	**14,636**	12,858
– Accrued expenses	**22,781**	28,330
– Others	**1,919**	9,006
	74,834	89,752
Accrued staff costs	**40,122**	48,681
Other taxes payable	**12,668**	21,216
Dividend payables	**10,924**	–
	926,316	975,484

(a) The aging of trade payables based on goods and services received at the end of periods indicated is as follows:

	As at June 30, 2024 *RMB'000* **(Unaudited)**	As at December 31, 2023 *RMB'000* (Audited)
Up to 6 months	**113,128**	115,856
6 months to 1 year	**52,512**	49,623
1 to 2 years	**295,999**	562,902
2 to 3 years	**323,183**	84,531
More than 3 years	**2,946**	2,923
	787,768	815,835

(b) As at June 30, 2024, trade and other payables were denominated in RMB and their carrying amounts approximated their fair values (December 31, 2023: same).

12 DIVIDENDS

On June 28, 2024, the shareholders at the general meeting approved a final dividend for the year ended December 31, 2023 of HK$0.02 per share to shareholders whose name appeared on the register of members of the Company on July 5, 2024, pursuant to which, cash dividends totalling HK$12,425,000 (equivalent to RMB11,340,000) are expected to be distributed on August 28, 2024, of which HK$456,000 (equivalent to RMB416,000) is the shares held by the trustee of the 2022 RSU Scheme. These dividends will be distributed out of the Company's share premium.

The Board did not declare any interim dividend for the six months ended June 30, 2024 (June 30, 2023: same).

13 CONTINGENT LIABILITY

As at June 30, 2024, the Group had the following contingent liability required to be disclosed:

	As at June 30, 2024	As at December 31, 2023
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Legal claim	**19,199**	19,199

As at the date of this report, a legal dispute initiated by the Group's subcontracting service providers against the Group has not been resolved (the "**Legal Dispute**"). The Legal Dispute is about a disagreement on the basis of determination of (i) the subcontracting service fee and (ii) the related penalties for the delay in payment of the subcontracting service fee. The contingent liability amounting to RMB19,199,000 as at June 30, 2024 was related to the Legal Dispute, and such amount represents the difference between the amount claimed by the supplier and the relevant trade payables recorded by the Group (December 31, 2023: same).

14 SUBSEQUENT EVENTS

Save as disclosed in this announcement, no material subsequent events took place after June 30, 2024.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

1. INDUSTRY OVERVIEW

1.1 International and Domestic Macro Situation

In 2024, the international political and economic situation is complex and volatile. On the political front, the competition among major powers has intensified. On the economic front, the global economic growth is expected to remain at around 3%, but still lower than the pre-pandemic levels. The global economic recovery still confronts challenges such as geopolitical tensions and unstable supply chains, and all industries need to strengthen international cooperation to cope with uncertainties, thereby promoting a smooth recovery of the global economy.

The macro-environment facing China's development in 2024 will continue to be characterized by both strategic opportunities and risk challenges. In the first half of the year, China's economy maintained a momentum of steady progress, while the Chinese government took a series of measures to enhance macro-control, so as to promote high-quality development and accelerate the development of new quality productive forces. At the same time, it is noteworthy that the current factors affecting economic growth are more complex than in the past. Our country is making great efforts to address the difficulties and problems in economic performance in order to consolidate and boost the trend of economic recovery. The measures and strategies adopted by our country include new features such as adhering to innovation-driven development, cultivating new drivers and expanding new spaces for growth, adapting to the new characteristics of faster technological iteration, more disruptive innovations and deeper cross-field integration, thereby giving full play to the role of enterprises as the main body, increasing policy support in a targeted manner, and promoting more key core technologies to achieve new breakthroughs.

1.2 Third-party medical testing industry

After the end of the COVID-19 pandemic, the third-party medical diagnosis industry is faced with opportunities such as national policy support, growth in market demand and technological innovation, as well as a number of challenges such as strengthened supervision, price reduction, fierce market competition and plight of downstream medical institutions. In the medium and long term, the most fundamental factor affecting the development of the healthcare industry is demographic change. With the impact of objective factors such as the obvious trend of population aging in Chinese society and the increased incidence of chronic diseases, the public's attention to health management has increased, leading to a surge in demand for precision testing services such as early screening of diseases and monitoring of personalized treatment in the future, which will fluctuate due to policy but remain unchanged in the long run. In particular, medical diagnostic testing services, as one of the important means for the prevention and control on chronic diseases, will continuously grow in its market demand. Meanwhile, the life science and technology industry has gone through many years of accumulation of theories and technologies, and such industry is on the eve of a technological explosion. Advances in biotechnology itself and the development of information technology will greatly enhance the innovation capability of the life technology industry, thereby promoting the development of the entire chain from clinical innovation to primary medical care, to the health services industry.

However, in the short term, the healthcare services industry has entered a period of deep adjustment due to economic and market factors as well as the overall impact of healthcare policies. Although the routine medical testing market has shown sizeable growth, the demand growth is less than expected and the market competition is becoming increasingly fierce. Leading enterprises in the industry need to seek breakthroughs in several aspects such as improvement in technology and product, consolidation in internal management and enhancement in innovation and collaboration, taking the road of technological innovation and differentiated development, so as to continuously adapt to market changes and market demands to cope with short-term challenges and embrace new growth opportunities in the future.

Policy Support and Industry Norms

At the policy level, as the reform of China's healthcare system continues to deepen and regulation is further strengthened, the development of the industry faces new opportunities and challenges.

- *The market demand of medical institution alliances was further unleashed due to the continuous release of favorable policies*

  Our country attaches great importance to the development of public health and the healthcare industry, and the continuous release of policy dividends has brought numerous development opportunities to the healthcare industry. As an important measure to promote the construction of a hierarchical diagnosis and treatment order, during the period from 2023 to 2024, the Notice on Issuing the List of Pilot Cities for Intensive Urban Medical Groups (《關於印發緊密型城市醫療集團試點城市名單的通知》), the Guiding Opinions on Comprehensively Promoting the Construction of Close-knit County-level Medical and Health Communities (《關於印發緊密型城市醫療集團試點城市名單的通知》), and the Notice on Further Improving the Mechanism to Promote the Distribution of Urban Medical Resources to Low-tier County Hospitals and Urban and Rural Grassroots (《關於進一步健全機制推動城市醫療資源向縣級醫院和城鄉基層下沉的通知》) were successively issued at the national level, which specifies the comprehensive promotion of the construction of close-knit urban medical groups as well as the construction of county-level medical communities. The series of policies reflect the government's determination to promote the distribution of high-quality medical resources and to build a better and more efficient medical and healthcare service system. The deepening of the development of the medical institution alliances and the continuous improvement of hierarchical diagnosis and treatment system will provide strong impetus for the development of the third-party medical testing industry.

- *LDT pilots progressed steadily, bringing market increment for the development of precision medicine*

  Policies and local implementation of Laboratory-Directed Testing (LDT) methods have made significant progress in recent years. At the policy level, the Regulations on the Supervision and Administration of Medical Devices (《醫療器械監督管理條例》) issued by the National Medical Products Administration provide a legal basis for the legalization of LDT, allowing qualified medical institutions to develop their own in vitro diagnostic reagents according to their clinical needs and use them in their own units. Such policy has cleared the obstacles for the development of LDT and laid the foundation for its application in the field of precision medicine.

Subsequently, localities have actively responded to the national policies, and Guangzhou, Shanghai, Hangzhou and other places have successively introduced policies and measures to support the development of LDT, encouraging qualified medical institutions to carry out LDT pilots. The LDT policy support and continuous implementation have brought positive impetus to the development of precision medicine, accelerated the application of new technologies and new methods in the field of precision medicine, and provided more personalized and precise diagnosis and treatment plans for the clinical practice. Meanwhile, the application of LDT has promoted the diversification of the in vitro diagnostic reagent market and provided a new growth point for third-party medical testing institutions. More importantly, the application of the LDT model has improved the effectiveness of diagnosis and treatment and quality of life of patients, which injected new vitality into the development of precision medicine.

- *The reform of the health insurance payment system and the continuous implementation of the centralized procurement policy promote industrial transformation*

  With the reform of the health insurance payment system and the continuous implementation of the centralized procurement policy, the development of the diagnostic testing industry has been boosted, while at the same time unneglectable challenges and pressures were brought to the entire industry. On the one hand, the implementation of relevant policies has prompted medical institutions to pay more attention to cost control and efficiency improvement, thus increasing the demand for third-party medical testing services, and the industry penetration rate is expected to increase significantly, which brings market opportunities for enterprise development. On the other hand, the implementation of the policy has brought about a substantial reduction in the procurement cost of clinical testing reagents, which in turn lowered the price of relevant testing items, leading to an intensive competition in the industry in the short term as well as a significant drop in the profitability of enterprises, which has a certain impact on the development of the industry. Under this policy, third-party medical testing institutions are required to continue to optimize their internal management, reduce operating costs and improve service efficiency in order to cope with the cost-control pressures brought by the health insurance payment and the centralized procurement policy.

Technological Advances and Innovative Applications

Technological innovation is the core driver for the development of medical diagnostic testing services market. The rapid development of biotechnology has pushed the scope of bioeconomy to many fields, and the development and application of biotechnology has become increasingly disruptive. With the development of new general-purpose technologies such as ultra-micro pathological morphology, polymerase chain reaction ("**PCR**"), fluorescence in situ hybridization, flow cytometry, NGS, digital PCR, remote AI pathology, mass spectrometry and the in-depth application of AI technologies, the industry will further accelerate the pace of technological updates in the future. Medical big data platforms are in the ascendant, providing a powerhouse for medical, medical technology and pharmaceutical innovation. The further application of AI technology in the field of testing and diagnosis has enhanced work efficiency and improved the accuracy and stability of the results. Biotechnology innovations have greatly improved the technical service capabilities of medical testing institutions, attracting more medical institutions to choose to cooperate with external institutions to provide testing services for patients.

2. BUSINESS REVIEW

As a comprehensive and professional medical operation service provider in China, the Group has been committed to promoting development with innovation and overcoming challenges with resilience. In the face of multiple difficulties and challenges and development opportunities brought by the macro-environment, the Group continued to deeply implement its overall business philosophy of "in-depth services and lean operations". On one hand, we constantly deepened our understanding of and response to the demands of medical institution customers and continued to explore new methods and new modes for improving medical service capabilities and efficiency together with our customers in order to consolidate the Company's development foundation and professional brand with in-depth services. During the Reporting Period, on the one hand, we achieved remarkable results in product innovation and model innovation, laying the foundation for the long-term healthy development of the Group; on the other hand, we further improved our operational and management mechanism and procedure, optimized the production capacity and eliminated redundancy, leveraged on the fast-growing digital technologies and remained focused on lean operations to improve customer experience and satisfaction with better and more efficient services.

During the Reporting Period, due to the challenges brought by the macro-environment, the profound changes in the medical service market and the fierce market competition, the Group's short-term results did not meet expectations. During the Reporting Period, the Group recorded a revenue of RMB379.9 million, representing a decrease of 20.3% as compared to the same period in 2023, and a net loss of RMB126.1 million as compared to a net profit of RMB48.0 million for the same period in 2023. During the Reporting Period, without considering the impact of revenue from phased testing and screening services nationwide at the beginning of 2023, the diagnostic testing services segment provided by the Group for medical institution alliances continued to maintain high-quality growth, making it the largest source of revenue of the Group.

However, despite the above challenges, the Group relied on its customer-oriented, innovative, and coordinated development system to achieve many breakthroughs in product innovation and model innovation, and made in-depth advancements in lean operation management and digital empowerment, laying a foundation for the long-term high-quality development of the Group. We actively believe that, despite the impact of the macro-environment in the short term, we will meet the market demand with more competitive products and services when the macro-environment improves and the market adjustment is gradually completed, which will put us in a more favorable market position. During the Reporting Period, the Group achieved good results in the following aspects:

2.1 *In-depth services-product innovation + model innovation to create new quality productive forces*

- *The innovative business model of providing diagnostic testing services for medical institution alliances has achieved remarkable results, such in-depth services have empowered the development of hospitals.*

  In recent years, based on the continuous increase in favorable national policies, the gradual release of market demand for medical institution alliances, and the Group's overall advantages in its solutions featuring specialization, standardization and digitalization for the construction of regional medical institution alliances, the Group's innovative business model – the provision of diagnostic testing services to medical institution alliances has maintained high-quality and healthy development for many years. As at the end of the Reporting Period, the Group had successfully provided professional diagnostic services to more than 1,500 medical institutions in collaboration with medical institution alliances from over 430 on-site diagnostic centers of medical institution alliances across the country and had created a number of benchmark joint projects, so as to facilitate the rapid development of medial institution alliances. While developing customers of the joint construction business with medical institution alliances, we attached greater importance to the deep cultivation of existing clients and lean operations. The Group not only provided "3+1" (i.e. tumor, infection, genetics and reproduction + precision medicine) technical system support but also provided support to the in-depth service system, including the operation of diagnostic centers under regional medical institution alliances, introduction of new technologies or new products, construction services for digital specialized clinical disciplines, medical cold chain logistics services, quality control services and supply chain services, so as to empower the demand and long-term development of hospitals with in-depth services.

  During the Reporting Period, our joint construction business with medical institution alliances was the largest source of revenue of the Group, contributing approximately 48.0% of our revenue. Without considering the impact of revenue from phased testing and screening services nationwide at the beginning of 2023, the diagnostic testing services segment provided by the Group for medical institution alliances continued to maintain high-quality growth.

- *Disease- and clinical-oriented development of high-quality products with continuously enhanced product competitiveness*

  The Group has always adhered to the "disease and clinical" oriented service concept and built a series of high-tech platforms including PCR, protein high-throughput sequencing, gene chip, molecular diagnosis, cytogenetic, digital remote pathology and ultra-micro pathology, which are capable of providing 3,500+ testing items, with an annual testing volume of more than tens of millions of specimens. Focusing on the core goal of "continuously improving product competitiveness", the Group continued to improve the core competitiveness of its products in total five dimensions, namely, product comprehensiveness, excellence, uniqueness, product classification management, and creating clinical scenario-based product solutions. We have developed diversified and targeted solutions and services for clinical application scenarios in different regions and different kinds of medical institutions, and established professional capabilities in multiple fields of diseases, including infectious diseases, reproductive health, genetic diseases, solid tumors, blood diseases, clinical immunology and endocrinology.

In recent years, the Group has continuously increased its investment in product research and development. In the first half of 2024, we launched more than 500 new testing items, far outpacing our peers in the launch of new items. New items launched during the Reporting Period with clinical needs as the core include 12 key featured products represented by dried blood spot vitamin D, allergy gene V2.0, urinary and fungal tNGS, as well as new items such as targeted sequencing of 158 respiratory pathogens, targeted sequencing of 265 common pathogens, intestinal flora detection (16srDNA sequencing), congenital adrenal hyperplasia (CAH) gene detection (third generation sequencing), and deafness gene screening (321 sites), which have been widely recognized by the market.

- *The joint innovation platform for diagnostic testing was replicated rapidly, and the product innovation + model innovation achieved remarkable results*

In recent years, the Group pioneered the "joint innovation platform for diagnostic testing", aiming to promote technological innovation for clinical purposes. Since its establishment, the joint innovation platform for diagnostic testing has successfully developed testing products for different infection syndromes in various fields such as respiratory tract infections and central nervous system infections. During the Reporting Period, the Group continued to deepen its cooperation with many top hospitals such as Guangdong Provincial People's Hospital with which the Group has contracted and continued to develop new products and technologies and promote them to the market, which have been widely acclaimed by clinicians. At the same time, we attach great importance to the continued development of the joint innovation platform for diagnostic testing. Since the establishment of the joint innovation platform for diagnostic testing in August 2022, we have so far cooperated with dozens of top domestic medical institutions in this innovative model. By giving full play to the top hospitals' technological leadership, as well as leveraging on the Group's platform foundation and innovative integration advantages in cutting-edge biotechnology, AI, cloud computing, big data and other advanced digital technologies, we will jointly explore scientific research and achievement transformation in various clinical specialty areas.

During the Reporting Period, the innovative products based on the joint innovation platform for diagnostic testing have exceeded the annual level of the previous year in terms of testing volume and testing revenue, which has injected new momentum into the Group's long-term high-quality growth.

- *innovation in the medical technology industry to create a new model of innovative medical center*

In terms of innovation in the medical technology industry, leveraging on its unique innovation on industrial model, the Group joins hands with various partners and lays emphasis on policy guidance, clinical development, technological breakthroughs, industrial services and application promotion in a bid to explore a new cooperation model for joint innovation and cooperation with medical schools, local governments and medical institutions.

Subsequent to the Reporting Period, we have signed strategic cooperation agreements with the People's Government of Ouhai, Wenzhou City and Wenzhou Medical University. In the future, all parties will focus on the core areas of the biopharmaceutical industry to orderly promote the establishment of several key projects such as joint innovation and transformation platforms, public service platforms, and medical big data research platforms, regional diagnosis sharing centers and innovative talents training base to promote the rapid transformation and industrial application of scientific research results and facilitate the construction of life and health industry.

As a leading medical operation service group in China, based on innovative multi-technology platforms, extensive service networks and the ability to integrate professional resources at home and abroad, the Group provides the platforms with core services featuring "standardization, specialization, intellectualization and collateralization". Based on the above, the Group will fully support Wenzhou Medical University and its affiliated hospitals, promote the transformation of scientific research results into practical applications, and strengthen the development of clinical disciplines and superior specialties, so as to truly improve the regional medical level. In addition, we will also capitalize on the network advantages of the medical institution alliances of the Group to assist in the early screening, diagnosis and intervention of major diseases and chronic diseases, and provide professional support for establishments such as Wenzhou as a Medical Treatment and Pandemic Prevention Integrated Pilot City (醫防融合試點城市), so as to make medical services more in line with the needs of the public.

- Focusing on "AI + medical care" to promote high-quality development of the industry

Over the years, based on its own advanced scientific research technology platform and well-established clinical service system and with a focus on digital technologies such as new medical technologies, cloud computing, big data, internet of things and 5G mobile networks, the Group has continuously improved its own medical testing technology research and development and digital application, further explored cutting-edge medical fields such as remote pathology, digital pathology, artificial intelligence ("**AI**") and built a professional service platform "AI + medical care". Combining with its top ten digital "cloud" operation systems, the Group helps partner hospitals to accomplish remote guidance, consultation, training and other services, accelerate the interconnection of information within the medical institution alliances, and distribute high-quality medical resources to underdeveloped areas, so as to benefit the majority of residents.

As at the end of the Reporting Period, the remote pathology consultation platform, a digital IT platform independently developed by the Group which owns all intellectual property rights thereon, has covered more than 600 medical testing items and has provided standardized and intelligent professional pathology technical services to nearly 300 medical institutions. It is one of the leading remote pathology platforms in China with the most access to hospitals. It assists medical institutions nationwide in improving examination quality and diagnosis efficiency and builds a digital pathology consultation system that efficiently empowers medical institutions at all levels.

In terms of the application of AI-assisted diagnosis, the Group adheres to the strategy of "introducing one item once it is mature", and closely follows the development trend of the industry. The Group has successfully introduced items such as pathological DNA polyploid AI-assisted diagnosis, cervical liquid-based cell AI-assisted diagnosis, chromosome AI analysis, leading to the great enhancement of diagnostic efficiency and the continuous emergence of application effects. Through the perfect combination of pathological AI-assisted diagnosis and remote pathology diagnosis platform, the Group has also realized the upgrade of the human-machine remote mode of "preliminary screening by AI and review by pathologist", significantly improving the efficiency of film reading.

2.2 Lean Operations – Continue to build lean operation capabilities to reduce costs and increase benefits

In the face of the complex external environment and fierce market competition, the Group is well aware that only those working hard to consolidate the overall strength can survive the crisis, thereby it has built a solid foundation to accumulate development strength. During the year, the Group made timely adjustments and changes to the Group's operations based on the core theme of "dredging for a deep bay or leave it as a shallow lake" to ensure the long-term and healthy development of the company.

During the Reporting Period, the Group launched Phase II of the Robust Project (強健工程), aiming to continue to deepen the results of the Phase I of the Project, consolidate the foundation of the Group's lean operations and management, and further improve the efficiency of the Group's use of resources to reduce costs and increase benefits through minimizing operating costs and optimizing operation platform. Through the perseverance and efforts of all employees of the Group, Phase II of the Robust Project systematically sorted out the operating data of each operating module of the Group. Through vertical penetration and horizontal comparison, we gained a deep insight into the nature of operational issues, identified key tasks, found basic solutions to the issues and achieved the following outcomes:

- we have improved the establishment of various operating rules and systems, optimized the core operation and management processes, further standardized the process supervision mechanism, and improved supervision efficiency;

- supported by the Group's "cloud" system, a structured operation data support system is established through IT-based means, and data penetrates through layers and can be traced to the bottom layer. Through data system monitoring and analysis, the root causes of operational issues were found and analyzed, and thus resolved from the source; and

- by means of lean management, we will comprehensively reduce costs and increase benefits from all aspects of corporate operations such as marketing, laboratories, supply chain, logistics and human resources, the outcomes of which will be seen in the second half of the year.

In the future, the Group will continue to promote the Robust Project and enhance the value and competitiveness of the Company through the all-process value chain management, thereby enhancing the market position and profitability of the Company.

FINANCIAL REVIEW

Overview

The financial summary set out below is extracted or calculated from the unaudited condensed consolidated financial statements of the Group for the Reporting Period which were prepared in accordance with the applicable disclosure provisions of the Listing Rules, including compliance with Hong Kong Accounting Standard 34 Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants.

Revenue

During the Reporting Period, the Group recorded a revenue of RMB379.9 million, representing a decrease of 20.3% as compared to the same period in 2023. Among them, the revenue from diagnostic testing services for medical institution alliances amounted to RMB182.3 million, representing a decrease of 7.9% as compared to the same period in 2023; the revenue from diagnostic outsourcing services amounted to RMB179.6 million, representing a decrease of 29.4% as compared to the same period in 2023; the revenue from diagnostic testing services for non-medical institutions amounted to RMB18.1 million, representing a decrease of 26.5% as compared to the same period in 2023. The decrease in overall revenue and revenue from each business segment was mainly due to the impact of the overall economic environment, the profound reform in the medical service market and fierce market competition. During the Reporting Period, the growth in demand for routine testing services was slower than anticipated and the price of routine testing dropped due to market influence, which resulted in a decline in overall revenue from diagnostic testing services as compared to the same period last year. Nevertheless, without considering the impact of revenue from phased testing and screening services nationwide at the beginning of 2023, the diagnostic testing services segment provided by the Group for medical institution alliances maintained high-quality growth.

The Group's revenue for the periods indicated is generated from three sectors as demonstrated below:

	For six months ended June 30,		
	2024	2023	Change
	RMB'000	*RMB'000*	
	(Unaudited)	(Unaudited)	
Diagnostic testing services for medical institution alliances	**182,272**	197,876	(7.9)%
Diagnostic outsourcing services	**179,614**	254,438	(29.4)%
Diagnostic testing services for non-medical institutions	**18,057**	24,551	(26.5)%
	379,943	476,865	(20.3)%

Cost of Revenue

The Group's cost of revenue consists of (i) cost of reagent and pharmaceuticals consumed; (ii) staff costs; (iii) depreciation expenses, which primarily include depreciation of property, plant and equipment and right-of-use assets; (iv) subcontracting charges, which primarily include outsourcing service fees paid; and (v) other costs, which are directly attributable to the generation of revenue.

The Group's cost of revenue decreased by 14.7% from RMB295.2 million for the six months ended June 30, 2023 to RMB251.7 million for the six months ended June 30, 2024, which was primarily attributable to the market demand for diagnostic testing services having grown slower than anticipated and the drop in the price of routine testing due to market influence, resulting in a decline in overall revenue and a corresponding decrease in cost of revenue.

Gross Profit and Gross Profit Margin

As a result of the aforementioned factors, the Group's gross profit decreased by 29.4% from RMB181.7 million for the six months ended June 30, 2023 to RMB128.2 million for the six months ended June 30, 2024. The Group's overall gross profit margin decreased from 38.1% for the six months ended June 30, 2023 to 33.7% for the six months ended June 30, 2024, primarily due to the market demand for diagnostic testing services having grown slower than anticipated, the reduction in business scale, the drop in the price of routine testing due to market influence and higher fixed costs, which resulted in a decline in the overall gross profit.

Other Income

Other income decreased by 82.9% from RMB6.1 million for the six months ended June 30, 2023 to RMB1.0 million for the six months ended June 30, 2024. The decrease was primarily due to the decrease in government grants received. The government grants mainly include those grants from the local government in recognition of the research and development ("**R&D**") projects of the Group. There are no unfulfilled conditions or other contingencies attached to these grants.

Other Gains, Net

Other gains, net decreased from RMB31.1 million for the six months ended June 30, 2023 to RMB6.6 million for six months ended June 30, 2024. The decrease was primarily attributable to (i) a decrease in exchange gains as a result of currency fluctuations during the Reporting Period; and (ii) a decrease in gains from redemption of financial assets at FVTPL.

Selling Expenses

The Group's selling expenses increased by 3.5% from RMB86.9 million for the six months ended June 30, 2023 to RMB89.9 million for the six months ended June 30, 2024, mainly due to the increase in related marketing expenses to facilitate business development and the recovery of trade receivables.

Administrative Expenses

The Group's administrative expenses increased by 23.8% from RMB80.5 million for the six months ended June 30, 2023 to RMB99.7 million for the six months ended June 30, 2024, primarily due to an increase in share award expenses of RMB17.7 million.

The Group's R&D expenses mildly decreased from RMB26.4 million for six months ended June 30, 2023 to RMB24.7 million for six months ended June 30, 2024, and the R&D expenses as a percentage of the total revenue increased from 5.5% for the six months ended June 30, 2023 to 6.5% for the six months ended June 30, 2024, mainly due to the Group's continued focus on R&D of medical technologies and operating systems.

Impairment Losses on Financial Assets

The Group's impairment losses on financial assets were mainly provisions for trade receivables. For the six months ended June 30, 2024, the Group's impairment losses on financial assets were approximately RMB52.4 million, representing an increase of provision of RMB48.1 million as compared to RMB4.3 million as at June 30, 2023, which was due to the fact that (i) certain trade receivables had a long recovery period arising from phased testing and screening services nationwide, and (ii) the recovery progress of trade receivables was slower than anticipated, which resulted in a significant amount of corresponding impairment losses on financial assets.

Finance Costs, Net

The Group's net finance costs increased from RMB15.1 million for the six months ended June 30, 2023 to RMB24.3 million for the six months ended June 30, 2024, primarily due to an increase in interest expense on interest-bearing borrowings.

(Loss)/Profit Before Income Tax

As a result of the aforementioned factors, the Group recorded a loss before income tax of RMB131.8 million for the six months ended June 30, 2024, as compared to a profit before income tax of RMB50.8 million for the six months ended June 30, 2023. This was mainly attributable to the demand for routine testing having grown slower than anticipated, the decrease in overall revenue from diagnostic services and higher fixed costs, which resulted in improminent economies of scale. Additionally, due to the longer recovery period of certain trade receivables, the amount of impairment losses on the corresponding financial assets was relatively large.

Income Tax Credit/(Expenses)

The Group recorded income tax credit of RMB5.7 million for the six months ended June 30, 2024, as compared to income tax expenses of RMB2.8 million for the six months ended June 30, 2023, primarily due to the turnaround from net profit to net loss.

Property and Equipment

The Group's property and equipment consist of property and buildings, medical equipment, vehicles, furniture and office equipment, leasehold improvements, construction in progress and right-of-use assets.

The Group's property and equipment decreased from RMB396.9 million as at December 31, 2023 to RMB369.3 million as at June 30, 2024, mainly due to depreciation and amortization of property and equipment.

Financial Assets Measured at Fair Value

The Group's financial assets measured at fair value comprise financial assets designated at FVTPL and financial assets designated at FVOCI.

As at June 30, 2024, the balance of financial assets at FVTPL was RMB577.4 million, representing a decrease of RMB211.5 million as compared to December 31, 2023, due to the redemption of structured notes during the Reporting Period.

As at June 30, 2024, the balance of financial assets at FVOCI was RMB79.5 million, representing an increase of RMB5.0 million as compared to December 31, 2023, due to the addition of an equity investment during the Reporting Period while changes in the fair value of financial assets at FVOCI were immaterial.

Inventories

The Group's inventories primarily consist of reagent and pharmaceuticals.

The Group's inventories decreased from RMB18.0 million as at December 31, 2023 to RMB15.5 million as at June 30, 2024, due to the decrease in the Group's procurement scale being in line with the reduction in its business scale, as well as the continued strengthening of inventory management.

Trade Receivables

The following table shows the loss allowance provision for the Group's trade receivables as at June 30, 2024.

	Public medical institutions	Chinese Center for Disease Control and Prevention (中國疾病預防控制中心)	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables as at June 30, 2024				
Gross carrying amount	1,118,658	489,457	135,946	1,744,061
Less: Loss allowance provision	(317,791)	(15,861)	(56,195)	(389,847)
	800,867	473,596	79,751	1,354,214
Bill receivables	844	–	–	844
	801,711	473,596	79,751	1,355,058

The Group's trade receivables decreased from RMB1,515.5 million as at 31 December 2023 to RMB1,355.1 million as at 30 June 2024, primarily due to (i) recovery of trade receivables; (ii) provision for trade receivables; and (iii) the impact of the reduction of revenue from diagnostic testing services. The credit period of the business of routine testing provided by the Group to customers is usually 180 days. The actual payback period for customers in certain regions will be lengthened due to the progress of approval for funding by the National Healthcare Security Administration (國家醫療保障局).

Affected by the market conditions of phased testing and screening services nationwide, most of the Group's trade receivables aged over one year. Customers in default of payment mainly include certain units of public hospitals and the Chinese Center for Disease Control and Prevention (中國疾病預防控制中心), the settlements of which are subject to government funding and long internal administrative procedures. The management of the Group applies the simplified approach under HKFRS 9 to measure the expected credit losses ("**ECL**") on trade receivables, based on the lifetime ECL at the end of each reporting period. The management has performed a detailed analysis, taking into account the customers' aging, credit history, historical payment pattern and forward-looking information, to estimate the ECL on its trade receivables. As such, the Group is of the view that there is no material recoverability issue for its net trade receivables. Additionally, the Group seeks to maintain strict control over its outstanding receivables and has a credit control department. Overdue balances are also reviewed regularly by senior management to minimize credit risk. Specific actions include but not limited to ongoing negotiation and discussion with customers regarding repayment plans and, if necessary, pursuing legal actions. Trade receivables are in the progress of being recovered. Subsequent to the Reporting Period and up to the date of this announcement, trade receivables of approximately RMB149.6 million had been settled, accounting for 11.0% of the Group's net trade receivables as at June 30, 2024.

The Group's trade receivables are relatively diversified. As at June 30, 2024, the balance of trade receivables from its single largest external customer did not exceed 5% of the Group's total trade receivables as at the same date. Therefore, any payment default by the single customer would not have a material adverse effect on the Group. In addition, the management of the Group has not identified any trade receivables from the single largest external customer that are subject to a significant risk of unrecoverability. Having considered all these factors, the Directors consider that the loss allowance as at June 30, 2024 was adequate.

Prepayments and Other Receivables

The Group's prepayments and other receivables decreased from RMB33.3 million as at December 31, 2023 to RMB24.6 million as at June 30, 2024, which was mainly due to the decrease in the related deposits as a result of the reduction in property leasing in order to reduce the operating costs and improve operating efficiency.

Trade and Other Payables

The Group's trade and other payables decreased from RMB975.5 million as at December 31, 2023 to RMB926.3 million as at June 30, 2024, primarily due to a decrease in the Group's procurement scale being in line with the contraction in revenue scale during the period.

Capital Management

The Group's objectives in respect of managing capital are to safeguard its ability to continue as a going concern in order to provide returns for Shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Liquidity and Financial Resources

The Group's cash and cash equivalents increased from RMB1,244.1 million as at December 31, 2023 to RMB1,289.8 million as at June 30, 2024, primarily attributable to an increase in cash as a result of the Group's redemption of its investments in previous years. For details of the Group's borrowings, please refer to the item "Borrowings and Gearing Ratio" in this section.

Net Current Assets

The Group's net current assets decreased from RMB1,649.7 million as at December 31, 2023 to RMB1,445.7 million as at June 30, 2024.

Key Financial Ratios

The following table sets forth the Group's key financial ratios for the periods or as at the dates indicated.

	For the six months ended June 30,	
	2024	2023
Gross profit margin[1]	**33.7%**	38.1%
	As at June 30, 2024	As at December 31, 2023
Current ratio[2]	**1.74**	1.75
Quick ratio[3]	**1.73**	1.75
Debt to asset ratio[4]	**0.53**	0.53

Notes:

(1) Gross profit margin is calculated based on gross profit divided by revenue and multiplied by 100%.

(2) Current ratio is calculated based on total current assets divided by total current liabilities.

(3) Quick ratio is calculated based on total current assets less inventories divided by total current liabilities.

(4) Debt to asset ratio is calculated as total liabilities divided by total assets.

Contingent Liability

As at June 30, 2024, the contingent liability of RMB19,199,000 was related to a legal dispute against the Group initiated by a subcontracting service provider of the Group which remains outstanding as at the date of this announcement. The legal dispute is about disagreement on the (i) determination basis of certain subcontracting service fee and (ii) the related penalty for the delay in payment of such subcontracting service fee.

Financing and Treasury Policies

The Group adopts centralized financing and treasury policies in order to ensure the Group's funding is utilized efficiently. The Group's liquidity position remains healthy, and the Group possesses sufficient cash and available banking facilities to meet its commitments and working capital requirements.

The Group's primary objectives for managing its capital are to safeguard the Group's ability to provide returns to Shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost. The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder's returns that might be possible with higher level of borrowings and the advantage and security based on a sound capital position, and adjusts the capital structure in light of changes in economic conditions.

Foreign Exchange Risk

The Group mainly operates in China. The relevant foreign exchange risk arises from bank deposits and financial assets at FVTPL that are denominated in Hong Kong dollars or U.S. dollars, and borrowings that are denominated in U.S. dollars or Swiss francs. The Group has adopted forward foreign exchange currency swap arrangement for borrowings that are denominated in U.S. dollars or Swiss francs to mitigate exchange risk, other than which the the Group does not have any other material direct exposure to foreign exchange fluctuations. The management will continue to monitor foreign exchange risk, take prudent measures and develop hedging strategy as appropriate to reduce foreign exchange risks.

Cash Flow and Fair Value Interest Rate Risk

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group currently has not used any interest rate swap arrangements but will consider hedging interest rate risk should the need arise.

Other than interest-bearing short-term deposits, the Group has no other significant interest-bearing assets. The Board does not anticipate that there is any significant impact to interest-bearing assets resulted from the changes in interest rates because the interest rates of short-term deposits are not expected to change significantly.

Credit Risk

The Group is exposed to credit risk in relation to its trade and other receivables, amounts due from related parties and cash deposits at banks. The carrying amount of each class of the above financial assets represents the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

Liquidity Risk

To manage the liquidity risk, the Group's policy is to regularly monitor its liquidity requirements and compliance with lending covenants, to ensure that it maintains sufficient reserve of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long term.

Borrowings and Gearing Ratio

As at June 30, 2024, the Group had borrowings of RMB1,149.3 million (December 31, 2023: RMB1,347.8 million), of which RMB739.7 million were at fixed interest rates (December 31, 2023: RMB1,051.7 million). As at June 30, 2024, borrowings equivalent to approximately RMB27.4 million were originally denominated in U.S. dollars and borrowings equivalent to approximately RMB59.4 million were originally denominated in Swiss francs.

As at June 30, 2024, the gearing ratio of the Group (calculated as total interest-bearing borrowings and lease liabilities divided by total equity plus other financial liabilities as at the same date) decreased to 61.1%, compared to 65.6% as at December 31, 2023.

Pledge of Assets

As at June 30, 2024, borrowings of approximately RMB375.6 million (December 31, 2023: RMB497.0 million) were secured by certain of the Group's equipment and pledged by certain of the Group's time deposits.

Significant Investments, Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures during the Reporting Period

The Group did not make any material investments, material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period.

Events after the Reporting Period

No important events affecting the Group have occurred since June 30, 2024 and up to the date of this announcement.

Future Plans for Material Investments and Capital Assets

The Group does not have any concrete committed plans for material investments and capital assets as at the date of this announcement.

Employees and Remuneration

As at June 30, 2024, the Group had 1,459 employees (as at June 30, 2023: 1,931). The total remuneration cost (including Directors' remuneration) incurred by the Group for the six months ended June 30, 2024 was RMB156.2 million (for the six months ended June 30, 2023: RMB153.6 million). The total remuneration of employees for the six months ended June 30, 2024 includes approximately RMB17.7 million of expenses related to restricted award shares (for the six months ended June 30, 2023: nil). The remuneration package of the Group's employees includes salary and bonus, which are generally determined by their qualifications, industry experience, position and performance. The Group makes contributions to social insurance and housing provident funds as required by the PRC laws and regulations. Apart from offering a competitive remuneration and benefits package, the Group provides corporate and vocational training to its employees according to the training and development policy of the Group.

The Company has also adopted a restricted share unit scheme on November 23, 2022 to attract retain and incentivize the key personnel and partners of the Company, and to promote the value of the Company by offering these individuals an opportunity to acquire the shares of the Company and a proprietary interest in the success of the Company, thereby linking their interests with the Company's performance. For details, please refer to the Company's announcements dated November 23, 2022 and July 28, 2023.

OTHER INFORMATION

Compliance with the Code Provisions set out in Part 2 of the Corporate Governance Code in Appendix C1 to the Listing Rules (the "Corporate Governance Code")

The Company strives to achieve high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of the Shareholders and to enhance corporate value and accountability.

The Company has adopted the principles and code provisions of the Corporate Governance Code as the basis of the Company's corporate governance practices.

During the Reporting Period, the Company has complied with all applicable code provisions set out in Part 2 of the Corporate Governance Code except for the deviation from code provision C.2.1 of the Corporate Governance Code. Pursuant to code provision C.2.1 of the Corporate Governance Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing. Mr. Zhang Yong currently serves as the chairman of the Board and the chief executive officer of the Company. He joined the Group on May 28, 2008 and has been operating and managing the Group since then. The Directors believe that it is beneficial to the business operations and management of the Group that Mr. Zhang Yong continues to serve as both the chairman of the Board and the chief executive officer of the Company.

The Company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the Corporate Governance Code, and maintain a high standard of corporate governance practices.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix C3 to the Listing Rules (the "Model Code")

The Company has adopted the Model Code as its securities code to regulate the dealing by the Directors in securities of the Company. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code during the Reporting Period. The Company's relevant employees, who are likely to be in possession of inside information of the Company, have also been subject to the Model Code for securities transactions. No incident of non-compliance of the Model Code by the Company's relevant employees was noted by the Company during the Reporting Period.

The Company has also established a policy on inside information to comply with its obligations under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and the Listing Rules. In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its Directors and relevant employees in advance.

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any subsidiaries or consolidated affiliated entities of the Group purchased, redeemed or sold any of the listed securities of the Company during the Reporting Period.

Interim Dividend

The Board did not declare any interim dividend for the six months ended June 30, 2024 (for the six months ended June 30, 2023: nil).

Audit Committee

The Audit Committee has reviewed the unaudited condensed consolidated financial statements for the six months ended June 30, 2024 of the Group. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control measures with senior management members. The Audit Committee does not have any disagreement with the accounting treatment adopted by the Company.

Publication of Interim Results Announcement and Interim Report

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.yunkanghealth.com).

The interim report for the six months ended June 30, 2024 containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the Shareholders, management team, employees, business partners and customers of the Company for their support and contribution to the Group.

By order of the Board
Yunkang Group Limited
Zhang Yong
Chairman

Guangzhou, the PRC
August 28, 2024

As at the date of this announcement, the Board comprises Mr. Zhang Yong as chairman and executive Director; Ms. Huang Luo, Dr. Wang Pinghui and Dr. Wang Ruihua as non-executive Directors; and Mr. Yu Shiyou, Mr. Lan Fenghui and Mr. Xie Shaohua as independent non-executive Directors.