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**Post Hearing Information Proof of**

# HUAKANG BIOMEDICAL HOLDINGS COMPANY LIMITED
# 華康生物醫學控股有限公司

**(the "Company")**

*(Incorporated in the Cayman Islands with limited liability)*

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# HUAKANG BIOMEDICAL HOLDINGS COMPANY LIMITED
# 華康生物醫學控股有限公司

*(incorporated in the Cayman Islands with limited liability)*

## [REDACTED]

| | | |
|---|---|---|
| **Number of [REDACTED]** | **:** | **[REDACTED] Shares** |
| **Number of [REDACTED]** | **:** | **[REDACTED] Shares (subject to reallocation)** |
| **Number of [REDACTED]** | **:** | **[REDACTED] Shares (subject to reallocation)** |
| **[REDACTED]** | **:** | **Not more than HK$[REDACTED] per [REDACTED] and expected to be not less than HK$[REDACTED] per [REDACTED], plus brokerage of 1%, SFC transaction levy of 0.0027%, and Stock Exchange trading fee of 0.005% (payable in full on application and subject to refund)** |
| **Nominal value** | **:** | **HK$0.01 per Share** |
| **[REDACTED]** | **:** | **[REDACTED]** |

**Sole Sponsor**

**[REDACTED]**

**[REDACTED]**

**[REDACTED]**

| | |
|---|---|
| **[REDACTED]** | **[REDACTED]** |
| **[REDACTED]** | |
| **[REDACTED]** | **[REDACTED]** |

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30 November 2018

# CHARACTERISTICS OF GEM

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to higher market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the Stock Exchange's website at www.hkexnews.hk in order to obtain up-to-date information on companies listed on GEM.**

# EXPECTED TIMETABLE

**[REDACTED]**

# EXPECTED TIMETABLE

**[REDACTED]**

# EXPECTED TIMETABLE

**[REDACTED]**

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*This document is issued by our Company solely in connection with the* **[REDACTED]** *and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the* **[REDACTED]** *offered by this document. This document may not be used for the purpose of, and does not constitute, an offer to sell, or a solicitation of an offer to subscribe for or buy, any security in any other jurisdiction or in any other circumstances.*

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*The contents on the website at www.szhuakang.com which is the official website of our Company do not form part of this document.*

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# SUMMARY

*This summary is intended to give you an overview of the information contained in this document. As this is only a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this document. You should read the whole document (including the appendices hereto, which constitute an integral part of this document) in its entirety before you decide to invest in the* **[REDACTED]**.

*There are risks associated with any investment in the* **[REDACTED]**. *Some of the specific risks involved in investing in the* **[REDACTED]** *are set out in the section headed "Risk factors" of this document. You should read the "Risk factors" section carefully before making any decision to invest in the* **[REDACTED]**.

*Various expressions used in this summary are defined in the sections headed "Definitions" and "Glossary of technical terms" of this document.*

## OVERVIEW

We are a medical device group specialised in the research and development, manufacture and sale of a wide range of IVD reagents in China. Leveraging on our knowledge and experience, our Group is particularly focused on the PRC male fertility IVD reagent market. We ranked the third among manufacturers of male fertility IVD reagents in China, having 14.3% share of this market in terms of medical institution purchase value in 2017, according to the CIC Report. We have developed our product portfolio of male fertility IVD reagents, with the largest number of products registered with the CFDA and Provincial FDAs among all manufacturers in 2017. One of our parasite antibody detection reagents is among the only two liver fluke IVD reagents which the CFDA has approved for manufacture and sale in China up to the Latest Practicable Date.

Our product portfolio of IVD reagents comprises: (i) male fertility IVD reagents (ii) parasite antibody detection reagents and (iii) an EBV antibody detection reagent. Our IVD reagents are designed to aid health care professionals in the diagnosis of diseases and conditions. We obtained the first product registration certificate in respect of our male fertility IVD reagents from the CFDA and launched the product in the PRC in 2008. During the Track Record Period, we manufactured and sold 27 IVD reagents which comprised 24 male fertility IVD reagents, two parasite antibody detection reagents and one EBV antibody detection reagent. We have registered 13 of our male fertility IVD reagents with the GDFDA as Class II medical devices and also filed with the Shenzhen MSA in respect of the remaining 11 of our male fertility IVD reagents Class I medical devices. We have also registered our two parasite antibody detection reagents and one EBV antibody detection reagent with the CFDA as Class III medical devices. We believe that the variety of our product offering is a reflection of our knowledge and expertise in the research and development, manufacture and sale of IVD agents. Moreover, focusing on the safety and reliability of our products, we have implemented the quality management system and standard operating procedures in our production process which is conducted in compliance with the PRC-recognised manufacture and quality control standards.

Research and development capabilities are one of our key competitive strengths. In 2011, we were recognised, for the first time, as "High and New Technology Enterprise"* (國家高新技術企業) by the relevant governmental authorities in the PRC. Our research and development team employs a market-driven approach for developing products based on commercial potential and the likelihood of successful development, as well as for improving the effectiveness and quality of our existing products. Furthermore, we have established a pipeline of product candidates for the steady supply of new products. We currently have five pipeline products, including three pipeline products at various stages of clinical trials and two pipeline products in the research and development phase.

We sell our products in China through direct sales and our distributors to hospitals and medical institutions, which use our products for diagnostic testing purposes. We operate a sales and distribution network with a broad geographical coverage of various provinces, autonomous regions and municipalities in

China. A majority of our direct sales were conducted in Guangdong province during the Track Record Period. As at the Latest Practicable Date, our sales, marketing and distribution functions were conducted through 21 sales and marketing personnel and a network of over 100 distributors in China. We have devoted resources to communications with our customers and end users so that we are able to better understand their specific requirements, and we provide relevant training on the knowledge regarding the characteristics of our products and their usages. Additionally, we sell auxiliary reproductive supplies and equipment which facilitate the use of our IVD reagents. The provision of combined solutions of IVD reagents, auxiliary reproductive supplies and equipment, as well as related services, is one of our key strategies to cultivate and maintain our customer base.

Our total revenue grew by RMB5.9 million, or by 30.6%, from RMB19.5 million for FY2015 to RMB25.4 million for FY2016, and further increased by RMB1.1 million, or by 4.5%, from RMB25.4 million for FY2016 to RMB26.5 million for FY2017. Our total revenue increased by RMB1.4 million, or by 14.6%, from RMB9.6 million for the five months ended 31 May 2017 to RMB11.0 million for the five months ended 31 May 2018. Our revenue growth during the Track Record Period demonstrated our ability to capitalise on our market position and take advantage of business opportunities arising from the growing PRC IVD market. During the Track Record Period, we have not adopted any change in our business focus.

## OUR PRODUCTS

Our Group offers mainly three categories of IVD reagents, namely, male fertility IVD reagent, parasite antibody detection reagent and EBV antibody detection reagent. Based on the purported diagnostic uses, our male fertility IVD reagents are further categorised into: (i) sperm function test kits, (ii) accessory genital glands test kits, (iii) anti-sperm antibody test kits, and (iv) male reproductive tract infection test kits. Our Group also offers auxiliary reproductive supplies and equipment produced by third party manufacturers. During the Track Record Period, revenue was primarily generated from the sales of our major products of IVD reagents. Our IVD reagents are classified into the classes of Class I, Class II and Class III medical devices, based on the level of technology required for manufacture, the degree of risks associated with usages, as well as the extent of control needed to ensure the safety and effectiveness of medical devices.

Our IVD reagents are mostly ready-made and in the form of liquid. Each of the reagents contains a variety of components and/or substances required for the diagnostic experiments. Most of the components are in the state of liquid, which can be used directly by end users. Please refer to the subsection headed "Business – Our Products" in this document for further details. Our products are not covered by any of the national medical insurance system in the PRC.

## SALES AND DISTRIBUTION

Our products are currently sold to more than 80 hospitals and medical institutions, as well as more than 100 distributors, in the PRC. We primarily market and sell our products through our own sales and marketing department directly to hospitals and medical institutions in major cities in China. In addition, we sell our products to our distributors who, in turn, sell our products to hospitals and medical institutions.

For FY2015, FY2016, FY2017 and the five months ended 31 May 2018, our five largest customers, comprising hospitals and distributors, contributed revenue that accounted for 41.7%, 44.7%, 37.0% and 37.1%, respectively, and our sales to the largest customer accounted for 18.2%, 20.9%, 11.0% and 15.8%, respectively, of our total revenue for the same periods. We have established the business relationships of over ten years with most of our top five customers during the Track Record Period.

We generally enter into standard distribution agreements with our distributors on an annual basis. We select distributors with proven distribution abilities, familiarity with their own target markets, financial strength, good credit records and sufficiently large scale of operations. In order to strengthen our internal control over the legal and regulatory compliance of our distributors, we have adopted a policy on distributor management. Please refer to the subsection headed "Business – Sales and Distribution" in this document for further details.

We have maintained long-term relationships with our customers whose repayment history has been good. During the Track Record Period, we did not experience any material customer credit deterioration or significant bad debts. We regularly make credit assessment on our customers and adjust their credit rankings where necessary. Our finance department conducts credit checks and makes credit assessments on our customers regularly. Such credit checks include credit searches through financial institutions, industry searches, internal investigations and onsite investigations. We also adjust our credit management policy from time to time according to product sales proposals and market conditions.

## PRODUCT PRICING

We price our products based on a number of factors, such as sales channels, cost of sales, expected demands of customers and end users for our products, selling prices of comparable or similar products of our competitors, sales regions and government policies. Moreover, our products were sold directly or through distributors to hospitals and medical institutions in the PRC during the Track Record Period. The centralised tender process adopted by public hospitals and medical institutions affects the prices at which we sell our products to public hospitals and medical institutions as well as our distributors. Please refer to the subsection headed "Business – Sales and Distribution – Product Pricing" in this document for further details.

## RESEARCH AND DEVELOPMENT

We are devoted to our product research and development and have been recognised as a High and New Technology Enterprise of the State*(國家高新技術企業) in the PRC since 2011. All of our research and development personnel have been trained in immunology, biotechnology, biological engineering and biomedical engineering. We conduct our research and development activities through our internal research and development department, which is mainly focused on developing products that address growing diagnostic needs in the areas of male and female infertility, as well as improving the effectiveness and quality of our existing products. Our Group has developed in-house all of our self-manufactured IVD reagents which up to the Latest Practicable Date comprised 32 male fertility IVD reagents, two parasite antibody detection reagents, one EBV antibody detection reagent and six female fertility IVD reagents. We have further completed a series of registrations with the CFDA and the GDFDA, as well as filings with the Shenzhen MSA. Please refer to the subsection headed "Business – Research and Development" in this document for further details.

## PRODUCTION

Our existing manufacturing facilities have been certified by the GDFDA since 23 May 2016. Our production line and manufacturing facilities are strictly in compliance with the CFDA requirements and standards in respect of manufacture of medical device products. We manufacture our products with two major production methods, namely biochemical method (生化法) and ELISA method.

We have established a systematic quality management system and standard operating procedures for our quality control and assurance functions. Our quality management department consists of quality assurance division and quality control division. We undertake quality inspections and document our quality control procedures at different stages of our production process from the procurement of raw materials to delivery of our products to customers. Please refer to the subsection headed "Business – Production" in this document for further details.

## SUPPLIERS AND RAW MATERIALS

We purchase major raw materials, such as biological materials (including antibodies, antigens and proteins) and chemical reagents, for the manufacture of IVD reagents from PRC suppliers and through overseas suppliers' agents located in the PRC. The raw materials required for the manufacture of our products are readily available in the market in abundant supply. Moreover, we have alternative sources for our major raw materials that can provide us substitutes with comparable quality and prices. Although we do not enter into any long-term agreement with our suppliers, we have established long-term and stable relationships with our major suppliers. In order to ensure the adequate supply of resources and proper operation of our business, we contract with more than one supplier for each major type of major raw materials. We have established business

relationships of over four years with most of our five largest suppliers during the Track Record Period. For FY2015, FY2016, FY2017 and the five months ended 31 May 2018, our purchases from our five largest suppliers accounted for 67.6%, 70.6%, 66.0% and 61.1%, of our total purchases for the same periods, and our largest supplier accounted for 26.9%, 31.0%, 31.8% and 32.1% of our total purchases for the same periods, respectively. Please refer to the subsection headed "Business – Suppliers and Raw Materials" in this document for further details.

We manage the inventory level of raw materials by monitoring our production activities and customers' demand, taking into consideration our production plan, research and development needs, procurement lead time of raw materials, as well as production lead time of our products. As most of the public hospitals and medical institutions in the PRC make their purchases of medical devices through a centralised procurement process, our business including our production and procurement plan and our financial performance may depend on whether we can win in such centralised procurement processes. For further details, please refer to the subsection headed "Risk Factors – Risks Relating to Our Business - If we are unable to win in the centralised procurement process of public hospitals and medical institutions in the PRC to sell our products to such public hospitals or medical institutions, we will lose market share and our business, financial condition and results of operations could be adversely affected" in this document.

## OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths will enable us to compete effectively in the PRC IVD reagent market: (i) we are a major market player in the PRC male fertility IVD reagent market and well-positioned to further grow our business in China; (ii) we develop our product portfolio and manufacture a variety of IVD reagents; (iii) our sales and distribution network, coupled with our marketing strategies, strengthen our market position in the PRC male fertility IVD market; (iv) our proven track record in the development and commercialisation of IVD reagents differentiates us from our competitors; and (v) we have a highly experienced management team. Please refer to the subsection headed "Business – Our Competitive Strengths" in this document for further details.

## OUR BUSINESS STRATEGIES

We plan to continue to enhance our overall competitiveness and increase our market share. We intend to achieve our objectives by adopting the following key business strategies to: (i) further expand our product portfolio and improve our existing product offerings; (ii) strengthen our research and development capabilities; (iii) continue to expand and consolidate our sales and distribution network in order to realise the market potential of our products; (iv) continue to cultivate and recruit talented employees who are essential to our businesses; and (v) develop our auxiliary reproductive supply business to better meet end users' demands.

## COMPETITIVE LANDSCAPE AND MARKET SHARE

According to the CIC Report, the PRC male fertility IVD reagent market is highly concentrated. There were 38 manufacturers in the PRC male fertility IVD reagent market in 2017. The top five manufacturers had an aggregate market share of over 73.5% in terms of medical institution purchase value in 2017. The remaining 33 manufacturers together accounted for an aggregate market share of 26.5% in terms of medical institution purchase value in 2017. All the top five market players are domestic manufacturers. We ranked the third in the PRC male fertility IVD reagent market in terms of medical institution purchase value in 2017, with a market share of 14.3%. The PRC IVD market is relatively fragmented with over 1,000 IVD reagent manufacturers in a number of segments with different characteristics and attributes. The male fertility IVD reagent market is a small subset of the IVD market in the PRC. We accounted for around 0.1% of the market share in the PRC IVD market in terms of medical institution purchase value in 2017. Please refer to the subsection headed "Industry Overview – The PRC Male Fertility IVD Reagent Market – Competitive Landscape" in this document for further details.

## SHAREHOLDER'S INFORMATION

### Our Controlling Shareholders

Immediately upon completion of the **[REDACTED]** and the **[REDACTED]**, Mr. Zhang will indirectly own **[REDACTED]**% of our Company's entire issued share capital through his interest in Crystal Grant, while Mr. Chang will indirectly own **[REDACTED]**% of our Company's entire issued share capital through his interest in Ever Charming. Mr. Zhang and Mr. Chang have been parties acting in concert with respect to Shenzhen Huakang since August 2003 and will continue to be parties acting in concert until they enter into a letter of termination pursuant to the Acting-in-concert Confirmation. Accordingly, Mr. Zhang, Mr. Chang and their respective holding companies will be aggregately interested in **[REDACTED]**% of the entire issued share capital of our Company. For the purposes of the GEM Listing Rules, Mr. Zhang, Mr. Chang, Crystal Grant and Ever Charming have been regarded as a group of Controlling Shareholders. Please refer to the section headed "History and Reorganisation" in this document for further details.

### [REDACTED] Investments

Pursuant to the **[REDACTED]** Subscription and Shareholders Agreement entered into among our Company, Crystal Grant and Ever Charming and the **[REDACTED]** Investors, the **[REDACTED]** Investors agreed to subscribe for, and our Company agreed to allot and issue 1,500 Shares, 500 Shares and 500 Shares to Gallizul, Hollingberg and Hilland at the consideration of HK$**[REDACTED]**, HK$**[REDACTED]** and HK$**[REDACTED]**, respectively. The said 2,500 Shares were duly allotted and issued and the abovementioned subscriptions were completed on 31 August 2017, being at least 28 clear days before the date of submission of the initial **[REDACTED]** application of the Company and no special rights attached to the **[REDACTED]** Investments shall survive upon the **[REDACTED]**, the Sole Sponsor is of the view that the **[REDACTED]** Investments have complied with the guidance letters HKEx-GL29-12 (updated in March 2017), HKEx-GL43-12 (updated in July 2013 and March 2017) and HKEx-GL44-12 (updated in March 2017) of the Stock Exchange. Upon the completion of the **[REDACTED]** Investments and immediately prior to the **[REDACTED]** and the **[REDACTED]**, our Company was owned as to **[REDACTED]**% by Crystal Grant, **[REDACTED]**% by Ever Charming, **[REDACTED]**% by Gallizul, **[REDACTED]**% by Hollingberg and **[REDACTED]**% by Hilland, respectively.

The **[REDACTED]** Investors, Gallizul, Hollingberg and Hilland are investment holding companies incorporated in the BVI with limited liability. Gallizul and its affiliates are involved in private equity investments in Hong Kong, PRC and overseas, including but not limited to medical device companies. Hollingberg and its affiliates are involved in property investments and private equity investments in Hong Kong, PRC and the United States. Hilland and its affiliates have extensive experience in corporate management and information technology sectors. Our Directors believe that the **[REDACTED]** Investors will bring strategic benefits to our Group by strengthening and diversifying our shareholder base for financing our working capital and other needs of our business and expanding our Group's business network, exploring potential business opportunities for the future development and enhancing our internal control and corporate management. For further details on the **[REDACTED]** Investment, the background of the **[REDACTED]** Investors and the strategic benefits of the **[REDACTED]** Investments, please refer to the section headed "History and Reorganisation — **[REDACTED]** Investment" in this document.

## COMPETITION

Save as disclosed in this document, our Controlling Shareholders and Directors confirm that they do not have any interest in any other businesses, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 11.04 of the GEM Listing Rules. Please refer to the section headed "Relationship with our Controlling Shareholders" in this document for further details.

## SUMMARY OF FINANCIAL INFORMATION

The following tables summarise the consolidated financial information of our Group during the Track Record Period, which are extracted from the Accountants' Report as set out in Appendix I to this document. The summary financial data should be read in conjunction with the consolidated financial information in the Accountants' Report as set out in Appendix I to this document.

### Key Information in our Consolidated Statements of Profit or Loss and Other Comprehensive Income

| | Year ended 31 December | | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000 (unaudited)* | *RMB'000* |
| **Revenue** | 19,456 | 25,410 | 26,541 | 9,606 | 11,012 |
| Cost of sales | (5,088) | (7,788) | (8,007) | (2,895) | (2,841) |
| Gross profit | 14,368 | 17,622 | 18,534 | 6,711 | 8,171 |
| Profit before tax | 9,203 | 9,944 | (247) | 4,130 | 2,198 |
| **Profit/(loss) for the year** | 7,934 | 8,426 | (1,952) | 3,535 | 1,470 |
| **Non-HKFRS Measure** | | | | | |
| **[REDACTED]** | – | – | **[REDACTED]** | – | **[REDACTED]** |
| **Profit for the year excluding [REDACTED]** | 7,934 | 8,426 | 10,157 | 3,535 | 3,948 |

### *Non-HKFRS Measure*

"Profit for the year excluding **[REDACTED]**" is a non-HKFRS measure which is not defined in HKFRSs or presented in the Accountant's Report as set out in Appendix I to this document. We present this financial measure because it is used by our management to evaluate our financial performance by eliminating the impact of **[REDACTED]** that we do not consider indicative of the performance of our business. Our Directors believe that this non-HKFRS measure provides additional information to investors in understanding and evaluating our results of operations in the same manner as they help our management and in comparing financial results across accounting periods. Further, our Directors believe that such information will be helpful for investors in assessing the level of our net profit by eliminating the effects of **[REDACTED]** as a one-off and non-recurring item.

### *Revenue*

Our revenue during the Track Record Period is derived from the sales of our (i) male fertility IVD reagents; (ii) parasite antibody detection reagents; (iii) EBV antibody detection reagent; and (iv) auxiliary reproductive supplies and equipment. The sales of male fertility IVD reagents contributed primarily to our total revenue during the Track Record Period. Revenue from the sales of our male fertility IVD reagents increased from RMB17.0 million for FY2015 to RMB22.2 million for FY2016, which was mainly attributable to an increase in the sales volume of our male fertility IVD reagents, primarily because the PRC government implemented the universal two-child policy in January 2016 and some of our existing customers increased their purchases of our products. Further, such revenue increased slightly to RMB22.7 million for FY2017. The product mix of our male fertility IVD reagents which contributed to our total revenue for this period changed as the relevant public hospitals and medical institutions adjusted the product mix of IVD reagents which they procured for diagnostic tests. The sales of our sperm function test products contributed primarily to such revenue for the five months ended 31 May 2018. Please refer to the subsection headed "Financial Information – Discussion of Selected Items from the Consolidated Statements of Profit or Loss and Other Comprehensive Income – Revenue" in this document for further details.

The following table sets out a breakdown of our revenue by product category for the indicated periods:

| | Year ended 31 December | | | | | | Five months ended 31 May | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2016 | | 2017 | | 2017 | | 2018 | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000 (unaudited)* | *%* | *RMB'000* | *%* |
| **IVD reagents** | | | | | | | | | | |
| **Male fertility IVD reagents** | | | | | | | | | | |
| Sperm function test products | 6,859 | 35.3 | 9,613 | 37.9 | 11,027 | 41.5 | 4,229 | 44.0 | 4,459 | 40.5 |
| Accessory genital glands test products | 4,402 | 22.6 | 5,801 | 22.8 | 4,483 | 16.9 | 1,691 | 17.6 | 1,925 | 17.5 |
| Male reproductive tract infection test products | 2,206 | 11.3 | 2,540 | 10.0 | 2,823 | 10.6 | 947 | 9.9 | 1,164 | 10.6 |
| Anti-sperm antibody test products | 2,628 | 13.5 | 3,124 | 12.3 | 2,638 | 9.9 | 1,075 | 11.2 | 889 | 8.0 |
| Others | 903 | 4.6 | 1,152 | 4.5 | 1,719 | 6.6 | 442 | 4.6 | 432 | 3.9 |
| **Subtotal of male fertility IVD reagents** | 16,998 | 87.3 | 22,230 | 87.5 | 22,690 | 85.5 | 8,384 | 87.3 | 8,869 | 80.5 |
| **Parasite antibody detection reagents** | 888 | 4.6 | 1,226 | 4.8 | 1,908 | 7.2 | 505 | 5.3 | 1,067 | 9.7 |
| **EBV antibody detection reagent** | 1,081 | 5.6 | 1,041 | 4.1 | 869 | 3.3 | 215 | 2.2 | 329 | 3.0 |
| **Subtotal of IVD reagents** | 18,967 | 97.5 | 24,497 | 96.4 | 25,467 | 96.0 | 9,104 | 94.8 | 10,265 | 93.2 |
| **Auxiliary reproductive supplies and equipment** | 489 | 2.5 | 913 | 3.6 | 1,074 | 4.0 | 502 | 5.2 | 747 | 6.8 |
| **TOTAL** | 19,456 | 100.0 | 25,410 | 100.0 | 26,541 | 100.0 | 9,606 | 100.0 | 11,012 | 100.0 |

The following table sets out a breakdown of our gross profit and gross profit margin by product category for the periods indicated:

| | Year ended 31 December | | | | | | Five months ended 31 May | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2016 | | 2017 | | 2017 | | 2018 | |
| | Gross Profit *RMB'000* | Gross Profit Margin *%* | Gross Profit *RMB'000* | Gross Profit Margin *%* | Gross Profit *RMB'000* | Gross Profit Margin *%* | Gross Profit *RMB'000* | Gross Profit Margin *%* | Gross Profit *RMB'000* | Gross Profit Margin *%* |
| **Male fertility IVD reagents** | | | | | | | | | | |
| Sperm function test products | 5,599 | 81.6 | 7,285 | 75.8 | 8,310 | 75.4 | 3,122 | 73.8 | 3,654 | 81.9 |
| Accessory genital glands test products | 3,182 | 72.3 | 4,025 | 69.4 | 3,161 | 70.5 | 1,170 | 69.2 | 1,482 | 77.0 |
| Male reproductive tract infection test products | 1,703 | 77.2 | 1,787 | 70.4 | 1,966 | 69.6 | 623 | 65.8 | 915 | 78.6 |
| Anti-sperm antibody test products | 1,890 | 71.9 | 2,139 | 68.5 | 1,839 | 69.7 | 790 | 73.5 | 635 | 71.4 |
| Others | 608 | 67.3 | 714 | 62.0 | 1,169 | 68.0 | 337 | 76.2 | 311 | 72.0 |
| **Subtotal of male fertility IVD reagents** | 12,982 | 76.4 | 15,950 | 71.7 | 16,445 | 72.5 | 6,042 | 72.1 | 6,997 | 78.9 |
| **Parasite antibody detection reagents** | 493 | 55.5 | 710 | 57.9 | 962 | 50.4 | 254 | 50.3 | 567 | 53.1 |
| **EBV antibody detection reagent** | 643 | 59.5 | 592 | 56.9 | 530 | 61.0 | 115 | 53.5 | 217 | 66.0 |
| **Subtotal of IVD reagents** | 14,118 | 74.4 | 17,252 | 70.4 | 17,937 | 70.4 | 6,411 | 70.4 | 7,781 | 75.8 |
| **Auxiliary reproductive supplies and equipment** | 250 | 51.1 | 370 | 40.5 | 597 | 55.6 | 300 | 59.8 | 390 | 52.2 |
| **TOTAL** | 14,368 | 73.8 | 17,622 | 69.4 | 18,534 | 69.8 | 6,711 | 69.9 | 8,171 | 74.2 |

The following table sets forth a breakdown of our revenue from the sales of our IVD reagents, by sales channel and product category for the periods indicated:

| | Year ended 31 December | | | | | | Five months ended 31 May | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2016 | | 2017 | | 2017 | | 2018 | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000 (unaudited)* | *%* | *RMB'000* | *%* |
| **Direct sales** | | | | | | | | | | |
| Male fertility IVD reagents | 10,450 | 53.7 | 13,066 | 51.4 | 13,269 | 50.0 | 5,318 | 55.3 | 5,127 | 46.5 |
| Parasite antibody detection reagents | 98 | 0.5 | 243 | 1.0 | 365 | 1.4 | 144 | 1.5 | 131 | 1.2 |
| EBV antibody detection reagent | – | – | – | – | – | – | – | – | 6 | 0.1 |
| Auxiliary reproductive supplies and equipment | 464 | 2.4 | 588 | 2.3 | 704 | 2.6 | 275 | 2.9 | 386 | 3.5 |
| **Sub-total** | 11,012 | 56.6 | 13,897 | 54.7 | 14,338 | 54.0 | 5,737 | 59.7 | 5,650 | 51.3 |
| **Sales to distributors** | | | | | | | | | | |
| Male fertility IVD reagents | 6,548 | 33.6 | 9,164 | 36.1 | 9,421 | 35.5 | 3,066 | 31.9 | 3,742 | 34.0 |
| Parasite antibody detection reagents | 790 | 4.1 | 983 | 3.8 | 1,543 | 5.8 | 361 | 3.8 | 936 | 8.5 |
| EBV antibody detection reagent | 1,081 | 5.6 | 1,041 | 4.1 | 869 | 3.3 | 215 | 2.2 | 323 | 2.9 |
| Auxiliary reproductive supplies and equipment | 25 | 0.1 | 325 | 1.3 | 370 | 1.4 | 227 | 2.4 | 361 | 3.3 |
| **Sub-total** | 8,444 | 43.4 | 11,513 | 45.3 | 12,203 | 46.0 | 3,869 | 40.3 | 5,362 | 48.7 |
| **TOTAL** | 19,456 | 100.0 | 25,410 | 100.0 | 26,541 | 100.0 | 9,606 | 100.0 | 11,012 | 100.0 |

We had no revenue derived from direct sales of EBV antibody detection reagent for FY2015, FY2016 and FY2017 and minimal revenue from direct sales of EBV antibody detection reagent for the five months ended 31 May 2018, primarily because during the Track Record Period, the sales and distribution of our EBV antibody detection reagent were mainly carried out through our distributors so that we can (i) expand the coverage of such products to hospitals in a cost-efficient manner across different regions in China; and (ii) focus our sales and marketing efforts on our male fertility IVD reagents, which accounted for more than 80% of our total revenue during the Track Record Period. Please refer to the subsection headed "Business - Sales and Distribution" in this document for further details.

The following table sets out a breakdown of the average selling price and the sales volume of our major products for the periods indicated:

| | | Year ended 31 December | | | | | | Five months ended 31 May | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2015 | | 2016 | | 2017 | | 2017 | | 2018 | |
| | No. of diagnostic experiments per unit | Sales volume | Average selling price | Sales volume | Average selling price | Sales volume | Average selling price | Sales volume | Average selling price | Sales volume | Average selling price |
| | | *Units* | *RMB* | *Units* | *RMB* | *Units* | *RMB* | *Units* | *RMB* | *Units* | *RMB* |
| **MAJOR PRODUCTS** | | | | | | | | | | | |
| **Male fertility IVD reagents** | | | | | | | | | | | |
| *Sperm function test products* | | | | | | | | | | | |
| Spermatozoa acrosin activity quantitative assay kit (精子頂體酶活性定量檢測試劑盒) | 20 | 6,312 | 937 | 8,097 | 948 | 8,275 | 965 | 3,000 | 1,023 | 3,391 | 905 |
| Sperm nucleus DNA integrity kit (精子核DNA完整性檢測試劑盒) | 20 | 409 | 1,547 | 892 | 1,522 | 1,761 | 1,534 | 631 | 1,613 | 849 | 1,380 |
| *Accessory genital glands test products* | | | | | | | | | | | |
| Seminal plasma neutral alpha-glucosidase quantitative assay kit (精漿中性α-葡糖苷酶定量檢測試劑盒) | 20 | 3,356 | 692 | 4,373 | 699 | 3,103 | 649 | 1,050 | 658 | 1,514 | 549 |
| Seminal plasma zinc quantitative assay kit (精漿鋅定量檢測試劑盒) | 20 | 3,371 | 373 | 4,204 | 358 | 3,833 | 379 | 1,506 | 392 | 1,808 | 359 |
| *Anti-sperm antibody test products* | | | | | | | | | | | |
| Spermatozoan surface antibody IgG mixed agglutination reaction kit (精子膜表面抗體IgG檢測試劑盒) | 20 | 5,493 | 478 | 6,691 | 467 | 5,399 | 489 | 2,191 | 490 | 2,058 | 432 |
| *Male reproductive tract infection test products* | | | | | | | | | | | |
| Seminal plasma PMN-elastase quantitative assay kit (精漿彈性硬蛋白酶定量檢測試劑盒) | 96 | 922 | 1,623 | 1,088 | 1,454 | 1,105 | 1,665 | 366 | 1,672 | 452 | 1,645 |
| **Parasite antibody detection reagents** | | | | | | | | | | | |
| Detection kit for IgG antibody to liver fluke (肝吸蟲IgG抗體檢測試劑盒) | 96 | 2,288 | 376 | 3,336 | 354 | 4,035 | 365 | 1,308 | 365 | 2,094 | 327 |
| **EBV antibody detection reagent** | | | | | | | | | | | |
| Detection kit for VCA IgA antibody to EBV (EB病毒VCA抗體(IgA)檢測試劑盒) | 96 | 3,872 | 279 | 3,748 | 278 | 3,193 | 272 | 793 | 272 | 1,198 | 274 |

## Key Information in our Consolidated Statements of Financial Position

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Current assets | 19,621 | 29,782 | 35,915 | 36,162 |
| Current liabilities | 10,463 | 12,632 | 10,812 | 10,684 |
| Non-current assets | 7,867 | 7,666 | 12,507 | 13,583 |
| Non-current liabilities | 1,250 | 615 | 220 | 201 |
| Net current assets | 9,158 | 17,150 | 25,103 | 25,478 |
| Net assets | 15,775 | 24,201 | 37,390 | 38,860 |

## Key Information in our Consolidated Statements of Cash Flows

| | Year ended 31 December | | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Cash flows from operating activities before movements in working capital excluding **[REDACTED]**[(1)] | 8,858 | 12,234 | 13,276 | 4,719 | 5,187 |
| Net cash flows from operating activities | 5,455 | 11,255 | 2,699 | 578 | 57 |
| Net cash flows from (used in) investing activities | 6,246 | (1,569) | (4,380) | (2,425) | (1,735) |
| Net cash flows (used in) from financing activities | (9,131) | 135 | 5,578 | (2,354) | (319) |
| Net increase in cash and cash equivalents | 2,570 | 9,821 | 3,897 | (4,201) | (1,997) |
| Cash and cash equivalent at beginning of year | 3,523 | 6,093 | 15,914 | 15,914 | 19,811 |
| Cash and cash equivalent at end of the year | 6,093 | 15,914 | 19,811 | 11,713 | 17,814 |

*Note:*

(1) "Cash flows from operating activities before movements in working capital excluding **[REDACTED]**" is a non-HKFRSs measure which is not defined in HKFRSs or presented in the Accountant's Report as set out in Appendix I to this document, and is presented for illustration purpose only.

Our cash flows from operating activities before movements in working capital for FY2015, FY2016, FY2017 and five months ended 31 May 2018 were RMB8.9 million, RMB12.2 million, RMB1.2 million and RMB2.7 million, respectively. Please refer to the subsection headed "Financial Information – Liquidity and Capital Resources – Financial Resources" in this document for further details.

## Key Financial Ratios

The following table sets forth certain financial ratios for the periods indicated:

| | For the year ended 31 December | | | Five months ended 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| Return on equity[(1)] | 50.3% | 34.8% | N/A | 3.8% |
| Return on total assets[(2)] | 28.9% | 22.5% | N/A | 3.0% |
| Gross profit margin[(3)] | 73.8% | 69.4% | 69.8% | 74.2% |
| Net profit margin[(4)] | 40.8% | 33.2% | N/A | 13.3% |
| Net profit margin excluding **[REDACTED]**[(5)] | 40.8% | 33.2% | 38.3% | 35.9% |

The following table sets forth certain financial ratios as at the dates indicated:

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| Current ratio (times)[(6)] | 1.9 times | 2.4 times | 3.3 times | 3.4 times |
| Quick ratio (times)[(7)] | 1.6 times | 2.2 times | 3.1 times | 3.2 times |
| Debt to equity ratio[(8)] | 4.8% | N/A | N/A | N/A |
| Gearing ratio[(9)] | 43.4% | 29.4% | 0.3% | N/A |

*Notes:*

(1) *Return on equity is calculated by the profit and total comprehensive income for each reporting period divided by the total equity as at the end of each reporting period.*

(2) *Return on total assets is calculated by the profit and total comprehensive income for each reporting period divided by the total assets as at the end of each reporting period.*

(3) *Gross profit margin is calculated based on the gross profit divided by the revenue. The decrease in gross profit margin from FY2015 to FY2016 was mainly due to the increase in staff costs relating to our manufacture activities.*

(4) *Net profit margin is calculated based on the profit and total comprehensive income divided by the revenue. Our net profit margin decreased from 40.8% for FY2015 to 33.2% to FY2016 as our net profit after tax was relatively stable as compared with our increase in revenue which was primarily attributable to a decrease in other income, an increase in other losses and an increase in administrative expenses in FY2016.*

(5) *Net profit margin excluding* **[REDACTED]** *is calculated based on profit for the year excluding* **[REDACTED]** *divided by the revenue. Our net profit margin excluding* **[REDACTED]** *remained relatively stable during the Track Record Period.*

(6) *Current ratio is calculated based on the total current assets divided by the total current liabilities as at the end of each reporting period.*

(7) *Quick ratio is calculated based on the total current assets less inventories divided by the total current liabilities as at the end of each reporting period.*

(8) *Debt to equity ratio is calculated by the net debt divided by the total equity as at the end of each reporting period. Net debt is calculated as total borrowings less bank balances and cash. Total borrowings include bank borrowings and amount due to Shenzhen Junxuan. Our debt to equity ratio as at 31 December 2016, 31 December 2017 and 31 May 2018 was not applicable as our Group was in net cash position as at 31 December 2016, 31 December 2017 and 31 May 2018, respectively.*

(9) *Gearing ratio is calculated based on total borrowings divided by the total equity as at the end of each reporting period. Total borrowings include bank borrowings and amount due to Shenzhen Junxuan. Our gearing ratio as at 31 May 2018 was not applicable as there was no borrowings as at 31 May 2018.*

(10) *The return on equity, return on total assets and net profit margin were not applicable for FY2017 due to the loss-making position of our Group for this period which was mainly attributable to the* **[REDACTED]** *of RMB***[REDACTED]** *incurred.*

Please refer to the subsection headed "Financial Information – Key Financial Ratios" in this document for further details.

**[REDACTED]**

For FY2015 and FY2016, we did not incur any **[REDACTED]**. For FY2017 and the five months ended 31 May 2018, we incurred **[REDACTED]** of RMB**[REDACTED]** (equivalent to HK$**[REDACTED]**) and RMB**[REDACTED]** (equivalent to HK$**[REDACTED]**) respectively. We expect to incur total **[REDACTED]** of approximately RMB**[REDACTED]** (equivalent to HK$**[REDACTED]**, assuming an **[REDACTED]** of HK$**[REDACTED]** per Share, being the mid-point of the indicative **[REDACTED]** range), of which our Group (i) has recognised RMB**[REDACTED]** (equivalent to HK$**[REDACTED]**) and RMB**[REDACTED]** (equivalent to HK$**[REDACTED]**) in the profit or loss for FY2017 and the five months ended 31 May 2018 respectively; (ii) expects to recognise RMB**[REDACTED]** (equivalent to HK$**[REDACTED]**) in the profit or loss for the seven months ending 31 December 2018; and (iii) expects to recognise RMB**[REDACTED]** (equivalent to HK$**[REDACTED]**) as a deduction in equity directly for the year ending 31 December 2018. Our Group's financial performance and results of operations for FY2017 and the five months ended 31 May 2018 have been, and those for the year ending 31 December 2018 will be, significantly and adversely affected by the one-off **[REDACTED]** as mentioned in the foregoing.

**RECENT DEVELOPMENT AND MATERIAL ADVERSE CHANGE**

Subsequent to the Track Record Period, we have continued to expand our client base. From 1 June 2018 up to the Latest Practicable Date, we recorded sales from our existing customers as well as from our new customers.

Based on the unaudited management accounts of our Group for the four months ended 30 September 2018, our total revenue for such period remained relatively stable. Our average monthly revenue for such period increased slightly as compared to that for the five months ended 31 May 2018, which was mainly attributable to the increase in sales of our parasite antibody detection reagents.

As disclosed in the paragraph headed "– **[REDACTED]**" in this section, our net profit for the year ending 31 December 2018 is expected to be affected by the estimated expenses in relation to the **[REDACTED]**. Our Directors have confirmed that save as disclosed in the subsections abovementioned, up to the date of this document, there has been no material adverse change in our financial or trading position since 31 May 2018, the end of the period reported in the Accountants' Report as set out in Appendix I to this document, and there has been no event since 31 May 2018 which would materially affect the information shown in the Accountants' Report as set out in Appendix I to this document.

## LITIGATION AND REGULATORY COMPLIANCE

As at the Latest Practicable Date, no member of our Group, or none of our Directors, was engaged in any litigation, claim or administrative proceedings of material importance, and no litigation, claim or administrative proceedings of material importance is known to our Directors to be pending or threatened against any member of our Group, or any of our Directors.

## [REDACTED] STATISTICS

The **[REDACTED]** comprises the following: (i) the **[REDACTED]** of initially **[REDACTED]** Shares in Hong Kong; and (ii) the **[REDACTED]** of initially **[REDACTED]** Shares, subject, in each case, to reallocation on the basis as described in the section headed "Structure and Conditions of the **[REDACTED]**" in this document. The following table sets out certain offering related data, assuming that the **[REDACTED]** has been completed:

| | **Based on the [REDACTED] of HK$ [REDACTED] per [REDACTED]** | **Based on the [REDACTED] of HK$ [REDACTED] per [REDACTED]** |
|---|---|---|
| Market capitalisation[(1)] | HK$**[REDACTED]** | HK$**[REDACTED]** |
| Unaudited pro forma adjusted consolidated net tangible assets of our Group attributed to owners of our Company per Share[(2)] | RMB**[REDACTED]** (equivalent to HK$**[REDACTED]**[(3)]) | RMB**[REDACTED]** (equivalent to HK$**[REDACTED]**[(3)]) |

Please refer to Appendix II to this document for further details.

*Notes:*

(1) The calculation of our market capitalisation is based on **[REDACTED]** Shares which will be in issue immediately following the completion of the **[REDACTED]** and the **[REDACTED]**, but takes no account of any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate to issue shares and general mandate to repurchase shares as described in the section headed "Share Capital" of this document.

(2) Immediately following completion of the **[REDACTED]** and the **[REDACTED]**, the issued share capital of the Company will be HK$**[REDACTED]** divided into **[REDACTED]** Shares, all fully paid or credited as fully paid. For the purpose of the preparation of the unaudited pro forma financial information, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 December 2017 per Share is calculated based on **[REDACTED]** Shares assuming in issue immediately following the completion of the **[REDACTED]** and the **[REDACTED]**. It does not take into account of any shares which may be issued or repurchased pursuant to the Company's general mandate. Please refer to Appendix II to this document for further details.

(3) Translation based on the exchange rate of RMB1.00 to HK$1.2.

## FUTURE PLANS AND [REDACTED]

We estimate we will receive approximately RMB**[REDACTED]** (equivalent to approximately HK$**[REDACTED]**) net proceeds from the **[REDACTED]** after deducting **[REDACTED]** commission and other estimated expenses paid and payable by us in connection with the **[REDACTED]**, assuming an **[REDACTED]** of HK$ **[REDACTED]** per Share, being the mid-point of the indicative **[REDACTED]**. We intend to use the net proceeds we receive from the **[REDACTED]** for the following purposes:

| Approximate percentage and amount of net proceeds (HK$) | Intended usages | Amount utilised by |
|---|---|---|
| **[REDACTED]**% or **[REDACTED]** | Developing new products, improving our existing products and carrying out international cooperation projects | 31 December 2020 |
| **[REDACTED]**% or **[REDACTED]** | Expanding our sales network and enhancing our sales and marketing activities | 31 December 2020 |
| **[REDACTED]**% or **[REDACTED]** | Developing auxiliary reproductive supply business | 31 December 2020 |
| **[REDACTED]**% or **[REDACTED]** | Funding working capital needs | 31 December 2020 |

HK$**[REDACTED]** and HK$**[REDACTED]** of the net proceeds will be used for the development of new products and enhancement of our existing products, respectively. Please refer to the section headed "Future Plans and **[REDACTED]**" of this document for further details.

## DIVIDENDS AND DISTRIBUTABLE RESERVE

Our Group did not declare or pay any dividend during the Track Record Period. Please refer to note 14 to the Accountants' Report set out in Appendix I to this document for further details.

Our Group currently does not have a fixed dividend policy, and does not have a pre-determined dividend payout ratio. Our Company was incorporated in the Cayman Islands on 3 August 2017. Subject to the Companies Law and the Articles, our Company may declare dividends in any currency, but no dividend shall be declared in excess of the amount recommended by our Board. The declaration and payment of dividends and the amount of dividends in the future will be at the recommendation of our Directors at their discretion and will depend on our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. There were no distributable reserves of our Company available for distribution to our Shareholders as at the Latest Practicable Date.

## RISK FACTORS

There are risks associated with your investment in the **[REDACTED]**, among which, the relatively material risks are (i) we depend on a limited number of major products and may be susceptible to factors adversely affecting the sales or the profitability of our major products; (ii) if our products are not manufactured in accordance with our quality standards, our business and reputation could be adversely affected; (iii) if we are unable to win in the centralised procurement process of public hospitals and medical institutions in the PRC to sell our products to such public hospitals or medical institutions, we will lose market share and our business, financial condition and results of operations could be adversely affected; (iv) our top two suppliers for FY2015, FY2016 and FY2017 accounted for over 32.1% of our total purchases throughout the Track Record Period if our business relationship with them deteriorates or terminates, our business, financial condition and results of operations would be adversely affected; and (v) if our competitors successfully market effective substitutes for any of our products, it could adversely affect our business, financial condition and results of operations. You should read the entire section headed "Risk Factors" in this document carefully before you decide to invest in the **[REDACTED]**.

# DEFINITIONS

*In this document, unless the context otherwise requires, the following expressions shall have the meanings set forth below. Certain other terms are explained in the section headed "Glossary of Technical Terms" in this document.*

| | |
|---|---|
| "Accountants' Report" | the accountants' report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I in this document |
| "acting in concert" | has the same meaning ascribed thereto under the Takeovers Code |
| "Acting-in-concert Confirmation" | the acting-in-concert confirmation dated 16 November 2017 entered into between Mr. Zhang and Mr. Chang. For further details, please refer to the subsection headed "History and Reorganisation – Our Group Structure Prior to the Reorganisation" in this document |
| "**[REDACTED]**" | **[REDACTED]** |
| "Articles" or "Articles of Association" | the articles of association of our Company, conditionally adopted on 26 November 2018 and effective from the **[REDACTED]**, a summary of which is set out in Appendix III to this document, and as amended, supplemented or otherwise modified from time to time |
| "associate(s)" | has the same meaning as defined in the GEM Listing Rules |
| "Beijing Dahua" | Beijing Dahua Sanxin Technology Development Company Limited* (北京大華三鑫科技發展有限公司), a company established under the laws of the PRC with limited liability on 6 August 2008, which is an Independent Third Party |
| "Board of Directors" or "Board" | the board of Directors |
| "Business Day(s)" | any day(s) (excluding Saturday(s), Sunday(s) and public holiday(s)) in Hong Kong on which licenced banks in Hong Kong are generally open for banking business through their normal business hours |
| "BVI" | the British Virgin Islands |
| "**[REDACTED]**" | **[REDACTED]** |

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| "**[REDACTED]**" | **[REDACTED]** |
| "CCASS" | the Central Clearing and Settlement System established and operated by HKSCC |
| "CCASS Clearing Participant" | a person admitted to participate in CCASS as a direct clearing participant or general clearing participant |
| "CCASS Custodian Participant" | a person admitted to participate in CCASS as a custodian participant |
| "CCASS Investor Participant" | a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation |
| "CCASS Operational Participant" | the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force |
| "CCASS Participant" | a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant |
| "CFDA" | China Food and Drug Administration (國家食品藥品監督管理總局) |
| "CIC" | China Insights Consultancy Limited, an Independent Third Party, which is a market research company with a focus on industry, country, company and consumer lifestyle research |
| "CIC Report" | the industry report issued by CIC, details of which are set out in the section headed "Industry Overview" in this document |
| "close associate(s)" | has the meaning as defined in the GEM Listing Rules |
| "**[REDACTED]**" | **[REDACTED]** |
| "Companies Law" | the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands |

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| "Companies Ordinance" | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| "Companies Registry" | the Companies Registry of Hong Kong |
| "Companies (Winding Up and Miscellaneous Provisions) Ordinance" | the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented and/or otherwise modified from time to time |
| "Company" or "our Company" | Huakang Biomedical Holdings Company Limited (華康生物醫學控股有限公司), a company incorporated in the Cayman Islands as an exempted company with limited liability on 3 August 2017 |
| "connected person(s)" or "core connected persons(s) | has the same meaning ascribed thereto under the GEM Listing Rules |
| "connected transaction" | has the same meaning ascribed thereto under the GEM Listing Rules |
| "Controlling Shareholder(s)" | has the meaning ascribed thereto under the GEM Listing Rules and for the purpose of this document, refers to Mr. Zhang, Mr. Chang, Crystal Grant and Ever Charming |
| "Crystal Grant" | Crystal Grant Limited, a company incorporated under the laws of the BVI with limited liability on 6 July 2017, which is wholly owned by Mr. Zhang, and one of our Controlling Shareholders |
| "Deed of Indemnity" | the deed of indemnity dated 27 November 2018 executed by our Controlling Shareholders in favour of our Company (for itself and as trustee for its subsidiaries), details of which are set out in the subsection headed "D. Other Information – 1. Estate duty, tax and other indemnity" in Appendix IV to this document |
| "Deed of Non-competition" | the deed of non-competition dated 27 November 2018 executed by our Controlling Shareholders in favour of our Company (for itself and as trustee for its subsidiaries), details of which are set out in the section headed "Relationship with Our Controlling Shareholders" in this document |
| "Director(s)" | the director(s) of our Company |
| "Disposed Business" | the principal business conducted by Shenzhen Kaierkang |
| "EIT" | Enterprise Income Tax(企業所得税) |

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| "Executive Director(s)" | the executive Director(s) of our Company |
| "**[REDACTED]**" | **[REDACTED]** |
| "Ever Charming" | Ever Charming Inc., a company incorporated under the laws of the BVI with limited liability on 6 July 2017, which is wholly owned by Mr. Chang, and one of our Controlling Shareholders |
| "Excluded Business" | the principal business conducted by Shenzhen Junxuan |
| "FY2015" | the financial year ended 31 December 2015 |
| "FY2016" | the financial year ended 31 December 2016 |
| "FY2017" | the financial year ended 31 December 2017 |
| "Gallizul" | Gallizul Global Investments Incorporated, a **[REDACTED]** Investor and a public Shareholder following the completion of the **[REDACTED]**, which is a company incorporated under the laws of the BVI with limited liability on 20 June 2017, and is beneficially owned as to (i) 50% by Ms. Huang Yan, (ii) 8.33% by ACE Fortune Business Limited, (iii) 8.33% by Mr. Chiu Wai Keung, (iv) 16.67% by Mr. Liu Huajun, and (v) 16.67% by Mr. Tsoi Kong Kenman, all of which are Independent Third Parties |
| "GDFDA" | Guangdong Food and Drug Administration (廣東省食品藥品監督管理局) |
| "GEM" | GEM operated by the Stock Exchange |
| "GEM Listing Rules" | the Rules Governing the Listing of Securities on GEM |
| "**[REDACTED]**" | **[REDACTED]** |
| "GMP" | Good Manufacturing Practice Rules for Medical Devices* (《醫療器械生產質量管理規範》) |
| "Group", "our Group", "we", "our" or "us" | our Company and its subsidiaries, or any of them or, where the context so required, in respect of the period before our Company became the holding company of the present subsidiaries, the present subsidiaries of our Company |

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| "Hilland" | Hilland International Limited (希蘭國際有限公司), a **[REDACTED]** Investor and a public Shareholder following the completion of the **[REDACTED]**, which is a company incorporated under the laws of the BVI with limited liability on 7 July 2017, and is wholly owned by Mr. Ma Cheong Daniel, an Independent Third Party |
| "HKAS" | Hong Kong Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants |
| "**[REDACTED]**" | **[REDACTED]** |
| "**[REDACTED]**" | **[REDACTED]** |
| "HKFRSs" | Hong Kong Financial Reporting Standards (which include the Hong Kong Accounting Standards) issued by the Hong Kong Institute of Certified Public Accountants |
| "HKICPA" | Hong Kong Institute of Certified Public Accountants |
| "HKSCC" | Hong Kong Securities Clearing Company Limited |
| "HKSCC Nominees" | HKSCC Nominees Limited |
| "HK$", "Hong Kong dollar(s)" and "cents" | Hong Kong dollars and cents respectively, the lawful currency of Hong Kong |
| "Hollingberg" | Hollingberg Limited, a **[REDACTED]** Investor and a public Shareholder following the completion of the **[REDACTED]**, which is a company incorporated under the laws of the BVI with limited liability on 13 July 2017, and is wholly owned by Ms. Tse Wai Ching Yvonne, an Independent Third Party |
| "Hong Kong" or "HKSAR" or "HK" | the Hong Kong Special Administrative Region of the PRC |
| "**[REDACTED]**" | **[REDACTED]** |
| "Huakang BVI" | Huakang Biomedical Company Limited (華康生物醫學有限公司), a company incorporated under the laws of the BVI with limited liability on 4 August 2017, which is a direct wholly-owned subsidiary of our Company |

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| "Independent Non-executive Director(s)" | the independent non-executive Director(s) of our Company |
| "Independent Third Party(ies)" | person(s) or company(ies) who/which is or are independent of and not connected with (within the meaning under the GEM Listing Rules) any member of our Group, the directors, chief executive and substantial shareholders of our Company and its subsidiaries and their respective associates |
| "**[REDACTED]**" | **[REDACTED]** |
| "Junxuan Property" | the properties situated at 1-3/F, Building D, Shenzhen Junxuan, 16 Yinkui Road, Kui Xin Community, Kui Chong Office, Dapeng New District, Shenzhen, the PRC* (中國深圳市大鵬新區葵涌辦事處葵新社區銀葵路16號君軒公司D棟廠房一至三層) |
| "King Grace" | King Grace Company Limited, a company incorporated under the laws of the BVI with limited liability on 22 April 2002, which is an indirect wholly-owned subsidiary of our Company |
| "Latest Practicable Date" | 22 November 2018, being the latest practicable date prior to the printing of this document for ascertaining certain information in this document |
| "**[REDACTED]**" | **[REDACTED]** |
| "**[REDACTED]**" | **[REDACTED]** |
| "**[REDACTED]**" | **[REDACTED]** |
| "Listing Department" | the Listing Department of the Stock Exchange |
| "Medical Devices Regulations" | Regulations on the Supervision and Administration of Medical Devices (《醫療器械監督管理條例》) |
| "Medical Devices Operation Regulations" | Regulations on the Supervision and Administration of the Operation of Medical Devices (《醫療器械經營監督管理辦法》) |
| "Memorandum" or "Memorandum of Association" | the memorandum of association of the Company adopted on 26 November 2018, a summary of which is set out in Appendix III to this document as amended, supplemented or otherwise modified from time to time |

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| "MOFCOM" | the Ministry of Commerce of the PRC* (中華人民共和國商務部) or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC* (中華人民共和國對外經濟貿易部) |
| "MOH" | the Ministry of Health of the PRC (中華人民共和國衛生部), one of the predecessors of the National Health and Family Planning Commission of the People's Republic of China (中華人民共和國國家衛生和計劃生育委員會) |
| "Mr. Chang" | Mr. Chang Yim Yang (張賢陽), one of our Controlling Shareholders, a member of our senior management and brother of Mr. Zhang and Mr. Zhang Chunguang, our Executive Director |
| "Mr. Poon" | Mr. Poon Lai Yin Michael (潘禮賢), our Executive Director |
| "Mr. Zhang" | Mr. Zhang Shuguang (張曙光), one of our Controlling Shareholders, our Executive Director, chairman of our Board and brother of Mr. Chang and Mr. Zhang Chunguang, our Executive Director |
| "NDRC" | the National Development and Reform Commission* (中華人民共和國國家發展和改革委員會) |
| "NHFPC" | the National Health and Family Planning Commission* (中華人民共和國國家衛生和計劃生育委員會) |
| "**[REDACTED]**" | **[REDACTED]** |
| "**[REDACTED]**" | **[REDACTED]** |
| "**[REDACTED]**" | **[REDACTED]** |
| "**[REDACTED]**" | **[REDACTED]** |
| "**[REDACTED]**" | **[REDACTED]** |

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| "**[REDACTED]**" | **[REDACTED]** |
| "PRC" or "China" | the People's Republic of China, save that, for the purpose of this document and unless the context otherwise requires, references in this document to the PRC do not include Hong Kong, Macau Special Administrative Region and Taiwan |
| "PRC Contract Law" | Contract Law of the PRC* (《中華人民共和國合同法》) |
| "PRC EIT Law" | the PRC Enterprise Income Tax Law* (中華人民共和國企業所得税法) passed by the National People's Congress of the PRC on 16 March 2007 and taking effect on 1 January 2008, as amended, supplemented and otherwise modified from time to time |
| "PRC government" | the government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or where the context requires, any of them |
| "PRC Legal Advisers" | Zhong Lun Law Firm, the legal advisers to our Company as to PRC laws |
| "**[REDACTED]** Investments" | **[REDACTED]** |
| "**[REDACTED]** Investors" | **[REDACTED]** |
| "**[REDACTED]** Subscription and Shareholders' Agreement" | the **[REDACTED]** subscription and shareholders' agreement dated 31 August 2017 and its supplemental agreement dated 16 November 2017 entered into among our Company, Crystal Grant, Ever Charming, Gallizul, Hollingberg and Hilland in relation to the **[REDACTED]** Investments. For further details, please refer to the subsection headed "History and Reorganisation – **[REDACTED]** Investments" in this document |
| "**[REDACTED]**" | **[REDACTED]** |

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| "**[REDACTED]**" | **[REDACTED]** |
| **[REDACTED]** | **[REDACTED]** |
| "Provincial FDA(s)" | the provincial food and drug administration authority of a province, municipality or region of the PRC |
| "**[REDACTED]**" | **[REDACTED]** |
| "**[REDACTED]**" | **[REDACTED]** |
| "**[REDACTED]**" | **[REDACTED]** |
| "**[REDACTED]**" | **[REDACTED]** |
| "QIB" | a qualified institution buyer (within the meaning of Rule 144A under the U.S. Securities Act) |
| "Regulation S" | Regulation S under the U.S. Securities Act |
| "Reorganisation" | the reorganisation of entities comprising our Group for the purposes of the **[REDACTED]**, details of which are set out in the subsection headed "History and Reorganisation – Reorganisation" in this document |
| "Restricted Business" | the business currently, and from time to time, engaged by our Group (including but not limited to the research and development, manufacture and sale of a wide range of IVD reagents in the PRC) |

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| "RHB Capital" or "Sole Sponsor" | RHB Capital Hong Kong Limited, a licensed corporation permitted to carry our Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, acting as the sole sponsor of our Company in respect of the **[REDACTED]** |
| "RMB" or "Renminbi" | Renminbi, the lawful currency of the PRC |
| "SAFE" | the State Administration of Foreign Exchange of the PRC* (中華人民共和國國家外匯管理局) |
| "SAT" | the State Administration of Taxation of the PRC* (中華人民共和國國家税務總局) |
| "SFC" or "Securities and Futures Commission" | the Securities and Futures Commission of Hong Kong |
| "SFO" or "Securities and Futures Ordinance" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| "Share(s)" | ordinary share(s) of HK$0.01 each in the share capital of our Company |
| "Shareholder(s)" | holder(s) of our Shares |
| "**[REDACTED]**" | **[REDACTED]** |
| "Shenzhen Huakang" | Shenzhen Huakang Bio-Medical Engineering Limited* (深圳華康生物醫學工程有限公司) (formerly known as Shenzhen Moon Bay Biology Technology Co., Ltd. (深圳月亮灣生物工程有限公司) and Shenzhen Nanfeng Biology Technology Co., Ltd. (深圳南豐生物工程有限公司)), a company established under the laws of the PRC with limited liability on 26 June 1992, which is an indirect wholly-owned subsidiary of our Company |
| "Shenzhen Junxuan" | Shenzhen Junxuan Bio-Tech Limited* (深圳市君軒生物技術有限公司), a company established under the laws of the PRC with limited liability on 29 August 1997, which is wholly owned by Mr. Zhang and will not form part of our Group upon the Reorganisation. Mr. Zhang is the director, chairman and legal representative of Shenzhen Junxuan |

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| "Shenzhen Kaierkang" | Shenzhen Kaierkang Bio-Tech Limited* (深圳市凱爾康生物技術有限公司), a company established under the laws of the PRC with limited liability on 13 January 2000. Immediately prior its disposal, Shenzhen Kaierkang was held by Shenzhen Junxuan as to 90% and an Independent Third Party as to 10%; Mr. Fu Jianhua was a director, chairman and legal representative, and Mr. Zhang was a director, of Shenzhen Kaierkang |
| "Shenzhen MSA" | Market Supervision Administration of Shenzhen Municipality(深圳市市場監督管理局) |
| "**[REDACTED]**" | **[REDACTED]** |
| "sq.m." or "$m^2$" | square metre(s) |
| "State Council" | the State Council of the PRC (中華人民共和國國務院) |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "subsidiary(ies)" | has the meaning ascribed thereto under the GEM Listing Rules |
| "substantial shareholder(s)" | has the meaning ascribed thereto under the GEM Listing Rules |
| "Takeovers Code" | the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, modified and supplemented from time to time |
| "Track Record Period" | the period comprising FY2015, FY2016, FY2017 and the five months ended 31 May 2018 |
| "Tenancy Agreement" | the tenancy agreement dated 13 September 2017 entered into between Shenzhen Huakang (as landlord) and Shenzhen Junxuan (as tenant) in respect of the Junxuan Property |
| "**[REDACTED]**" | **[REDACTED]** |
| "**[REDACTED]**" | **[REDACTED]** |
| "US$" | United States dollar, the lawful currency of the United States |
| "United States" | United States of America |

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| "U.S. Securities Act" | the United States Securities Act of 1933, as amended and supplemented or otherwise modified from time to time, and the rules and regulations promulgated thereunder |
| "**[REDACTED]**" | **[REDACTED]** |
| "**[REDACTED]**" | **[REDACTED]** |
| "%" | per cent |

*Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

*Translated English names of the PRC natural persons, legal persons, governmental authorities and departments, institutions, facilities, certificates, titles and the like, or any descriptions for which no official English translation exists are unofficial translations from their corresponding Chinese names and included for identification purposes only. In the event of inconsistencies, the Chinese name(s) shall prevail. English translation of company names in Chinese or another language which are marked with "*" is for identification purpose only.*

*Words importing the singular include, where applicable, the plural and vice versa. Words importing the masculine gender include, where applicable, the feminine and neuter genders.*

*All times and dates refer to Hong Kong local time and dates unless otherwise stated.*

# GLOSSARY OF TECHNICAL TERMS

*This glossary contains explanations of certain technical terms and abbreviations used in this document that are in connection with our business. The terms and their assigned meanings may not, however, correspond to standard industry meaning or usage of those terms.*

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| "antibody" or "antigen" | protein produced by B cells in response to a foreign molecule or invading microorganism. Also called immunoglobulin |
| "ART" or "assisted reproductive treatment" | reproductive technology and associated techniques used primarily for infertility treatment and assisting people to achieve a pregnancy |
| "CAGR" | compound annual growth rate, a method of assessing the average growth of a value over time |
| "Class I medical device(s)" | a class of medical devices with lower risks than Class II and III medical devices, and its safety and effectiveness can be ensured through routine administration, required to be filed with the food and drug administrative authorities at the city level |
| "Class II medical device(s)" | a class of medical devices with moderate risks, which shall be strictly controlled and administered, to ensure their safety and effectiveness, subject to inspection and approval by the food and drug administrative authorities at the provincial level |
| "Class III hospital(s)" | multi-regional hospitals with large capacity designated as class III hospitals by the MOH hospital classification system that provide multiple regions with high-quality professional medical services, undertake higher education and scientific research initiatives and are followed by lower ranked class II and class I hospitals |
| "Class III medical device(s)" | a class of medical devices with high risks which shall be strictly controlled and administered through special measures to ensure their safety and effectiveness, subject to inspection and approval by the CFDA |
| "CLIA" | an IVD application technique which uses the substrate interacting with certain immune complex and the intensity of generated light to identify the existence and amount of the immune complex |
| "clinical trial" | a research study for validating or finding the therapeutic effects and side-effects of test drugs in order to determine the therapeutic value and safety of such drugs |
| "COD" | cash on delivery, pursuant to which the buyer must settle payment for a good upon delivery |

# GLOSSARY OF TECHNICAL TERMS

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| "EBV" or "Epstein-Barr virus" | a type of virus which is also called human herpesvirus 4 (HHV-4) |
| "ELISA" or "enzyme-linked immunosorbent assay" | an IVD application technique which uses the enzymes interacting with certain antibodies and the intensity of colour changes to identify the existence and amount of the antibodies |
| "enzyme" | a substance produced by a living organism which acts as a catalyst to bring about a specific biochemical reaction |
| "medical institution purchase value" | amounts paid by hospitals and medical institutions for purchasing products from manufacturers and distributors |
| "in-vitro diagnostic reagents" or "IVD reagents" | a medical device used to diagnose diseases and physiological functions by obtaining clinical status information from testing specimens isolated from human blood, bodily fluids and tissue samples |
| "in-vitro diagnostics" or "IVD" | a series of products and services used to diagnose diseases and physiological functions by obtaining clinical status information from testing specimens isolated from human blood, bodily fluids and tissue samples |
| "ISO I3485 certifications" | a standard published by the International Organisation for Standardisation (ISO) which is applicable to all manufacturers, suppliers and distributors of medical devices and components as well as contract service providers |
| "WFOE" | wholly foreign-owned enterprise, which is a common investment vehicle for mainland China-based business wherein foreign parties (individuals or corporate entities) can incorporate a foreign-owned limited liability company |

# FORWARD-LOOKING STATEMENTS

This document includes forward-looking statements. All statements other than statements of historical facts contained in this document, including, without limitation, those regarding our future financial position, our strategies, plans, objectives, goals, targets and future developments in the markets where we participate or are seeking to participate are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future.

These forward-looking statements include, without limitation, statements relating to:

- the business operating strategies and plans for developing our businesses;
- the capital expenditure plans;
- the amount and nature of, and potential for, future development of our Group's business;
- the operations and business prospects;
- the dividend policy;
- the projects under planning;
- the regulatory environment of the relevant industry in general;
- the future development in relevant industry; and
- other factors referenced in this document, including, without limitation, under the sections entitled "Risk factors", "Industry overview", "Business", and "Financial information".

The words "aim", "anticipate", "believe", "can", "could", "expect", "going forward", "intend", "may", "might", "plan", "project", "seek", "should", "will", "would" and similar expressions, as they relate to our Group, are intended to identify a number of these forward-looking statements. These forward-looking statements reflecting our Directors' current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this document. One or more of these risks or uncertainties may materialise, or underlying assumptions may prove incorrect.

# FORWARD-LOOKING STATEMENTS

Subject to the requirements of the GEM Listing Rules, applicable laws, rules and regulations, our Company does not have any obligation and does not undertake to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events, developments or otherwise. Hence, should one or more of these risks or uncertainties materialise, or should underlying assumptions prove to be incorrect, our financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed, estimated or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. All forward-looking statements contained in this document are qualified by reference to the cautionary statements set out in this section.

In this document, statements of or references to the intentions of our Company or those of any of our Directors are made as at the date of this document. Any such intentions may change in light of future developments.

*Any investment in our Shares involves various risks. Potential investors should carefully consider all of the information set out in this document and, in particular the risks and uncertainties described below before making any investment decision in our Shares. In the event that any of the possible scenarios described in this section occurs, our business, financial conditions, results of operations and prospects could be materially and adversely affected. Additional risks not currently known to us or that we now consider immaterial may also harm us and affect our investment value. The trading prices of our Shares could decline considerably due to the occurrence of any of such risks and investors may lose part or all of the investments.*

## RISKS RELATING TO OUR BUSINESS

### We rely on a limited number of major products and may be susceptible to factors adversely affecting the sales or the profitability of our major products

Our revenue from the sales of our major products, eight in total, together accounted for 83.2%, 80.7%, 79.0% and 76.0% of our total revenue for FY2015, FY2016, FY2017 and the five months ended 31 May 2018, respectively. Many of the factors could adversely affect the sales or the profitability of our major products, including inability to win in the centralised procurement process of public hospitals and medical institutions in the PRC for sales to such public hospitals and medical institutions, increase in the costs of raw materials, product quality issues, sale of substitute products by competitors, intellectual properties, adverse changes in sales and distribution channels, and unfavourable policy or regulatory changes in the PRC. Many of these factors are outside our control. As our revenue is, and we expect such revenue will continue to be, concentrated on a limited number of major products, we may be particularly susceptible to factors adversely affecting the sales volumes, pricing levels and/or profitability of any of our major products.

### If our products are not manufactured in accordance with our quality standards, our business and reputation could be adversely affected

Our products and the relevant manufacturing processes are required to meet certain quality standards specified in our Medical Device Manufacturing Licence issued by the GDFDA. Although we have implemented our quality control system and procedures, we cannot eliminate the risk of errors, defects or failure in our manufacturing process. We may fail to detect or cure quality defects as a result of a number of factors, many of which are beyond our control, such as technical or mechanical malfunctions in our manufacturing process, human error or malfeasance by our quality control personnel, tampering by third parties during transportation and quality issues with the raw materials we purchase.

Failure to detect quality defects in our products, or to prevent such defective products from being delivered to our customers, could result in product recalls or withdrawals, licence revocation or regulatory fines, or other problems that could harm our reputation and business, expose us to liability, and adversely affect our revenues and profitability.

**If we are unable to win in the centralised procurement process of public hospitals and medical institutions in the PRC to sell our products to such hospitals or medical institutions, we will lose market share and our business, financial condition and results of operations could be adversely affected**

During the Track Record Period, a majority of our operating income was derived from sales to public hospitals and medical institutions in the PRC. The purchase of IVD reagents by government owned or controlled hospitals and medical institutions is subject to a centralised procurement process at a national, provincial or municipal level. The winning manufacturer is included in the supplier lists of the public hospitals and medical institutions which they are allowed to procure from. The introduction of the centralised procurement system for the PRC IVD industry may lead to increasing competition among suppliers of this industry and may bring downward pricing pressure on IVD reagent manufacturers. We may fail to win the centralised procurement process, if our prices are not competitive enough, our products are less clinically effective than competing products, our reputation were adversely affected by unforeseen events, or for other reasons. Furthermore, if we fail to win in the centralised procurement process, we will not be able to sell our products to public hospitals or medical institutions, and our business, financial condition and results of operations could be adversely affected.

**Our top two suppliers for FY2015, FY2016 and FY2017 accounted for over 32.1% of our total purchases throughout the Track Record Period**

Purchases from our top two suppliers for FY2015, FY2016, FY2017 and the five months ended 31 May 2018, accounted for 44.2%, 48.1%, 49.0% and 32.1% of our total purchases for the same periods, respectively. For further details, please refer to the subsection headed "Business – Suppliers and Raw Materials – Reliance on our Top Two Suppliers" in this document.

We did not enter into any long-term agreement with these two suppliers for the supply of raw materials. We cannot assure you that we can continue to source the aforesaid raw materials from these two suppliers, or that we will be able to maintain business relationship with them, or there will not be unfavourable changes in our terms of business, such as a substantial reduction of their supply to us or an unexpected termination of their business relationship with us for any reason. We cannot assure you that we could obtain sufficient quantities of suitable stocks from comparable alternative suppliers in a timely manner, or on commercially reasonable terms for replacement of the same raw materials.

The stability of operations and business strategies of these two suppliers are beyond our control but will also affect us. Any material disruption to their operations due to natural or other causes could adversely affect our procurement process. If that occurs, our inventory levels and results of operations could be adversely affected. If these two suppliers change their business strategies substantially, they could reduce their supply to or cease business relationship with us, which may in turn affect our business performance.

Any insufficient supply and fluctuations in inventory levels due to a substantial reduction of supply by these two suppliers and our failure to obtain replacement stocks could impact our ability to sell our products to our customers in a timely manner and harm our reputation, which could in turn result in lost sales opportunities or delayed payment, as potential customers could turn to our competitors whose raw materials are readily available.

**Our business, financial condition and results of operations may be materially and adversely affected if we are unable to compete effectively in the PRC IVD reagent industry**

According to CIC Report, there are currently over 1,000 IVD reagent manufacturers in the PRC, most of which are small-sized companies of low-end and mid-end products employing the application techniques of clinical chemistry and immunodiagnostics. Our products primarily compete with other products that are similar to our products in terms of efficacy, prices and customers' acceptance. Our competitors may be able to successfully develop and market effective substitutes for our products. Many of our existing and potential competitors may have better financial, technical, manufacturing or other resources than us. In addition, many of our competitors may have better brand name recognition, more established distribution network, larger customer base or more extensive knowledge of our target customer groups. Certain of our competitors may also adopt low profit margin sales strategies and compete against us by offering lower prices.

In addition, our products may also face increased competition from substitute products manufactured by overseas manufacturers that are seeking to enter into the PRC market. To the extent that our competitors' substitute products are, or are perceived to be, more clinical or cost effective, or otherwise gain wider market acceptance than any of our products, it could adversely affect the sales and pricing levels of our products. Any of these factors could have an adverse effect on our business, results of operations and financial condition.

**If we are subject to product liability claims, it could expose us to costs and liabilities and adversely affect our reputation, business, financial condition and results of operations**

We are exposed to risks associated with product liability claims in the event that any of our products are deemed or proven to be ineffective, defective or contaminated, or providing insufficient or misleading guidance on the use of products. We cannot assure you that we will not be subject to product liability claims or that we will be able to successfully defend ourselves against any of such claims. If we are unable to defend ourselves against such claims in the PRC, among other things, we may be subject to civil liability for any losses caused by our products. If our products are found to be defective, our business licences may be revoked. In addition, we may be required to recall the relevant products, suspend or cease sales. We do not maintain any product liability insurance to cover damages that may arise from product liability claims. Even if we are able to successfully defend ourselves against any of such product liability claims, such involvements may require significant financial resources and the time and attention of our management. In addition, adverse publicity of any such product liability claim, whether valid or not, may adversely affect our reputation, business, financial condition and results of operations.

**If we fail to maintain an effective distribution network for our products, our business, financial condition and results of operations could be adversely affected**

We currently have a network of over 100 distributors across China, on which we rely to distribute our IVD reagents in order to meet market demand and maintain our market share in the PRC. Our ability to maintain and grow our business will depend on our continuity to maintain and manage a distribution network that timely delivers our products to various regions in China. However, we have limited control over our distributors who are third parties, therefore our distributors may not distribute our products in the manner we anticipate, which may impair the effectiveness of our distribution network. Moreover, our distributors might elect not to renew their agreements or terminate their business relationships with us, or

elect to choose our competitors as suppliers for various reasons, including better price or discount provided by our competitors or other factors which limit the margins they can obtain through the resale of our products to hospitals, medical institutions and sub-distributors. In the event that a significant number of our distributors terminate their relationships with us, or we are unable to maintain and expand our distribution network effectively, our business, financial condition and results of operations could be adversely affected.

**If our employees or distributors engage in corrupt practices, other improper conduct or violate applicable anti-corruption laws, it could harm our reputation and expose us to regulatory investigations and penalties**

We may not be able to effectively control the conduct of our employees and distributors. In the PRC healthcare industry, the corrupt practices include, among others, acceptance of kickbacks, bribes or other illegal gains or benefits by hospitals and medical institutions from manufacturers and distributors in connection with the procurement of medicine, medical devices and other healthcare products. Currently, the practices of our employees and distributors are subject to scrutiny as the PRC government authorities are increasing their efforts to combat corrupt, illegal or improper business practices in the PRC healthcare industry. We cannot assure you that our employees or distributors will not engage in corrupt practices or other improper conduct or violate applicable anti-corruption laws in the PRC in the future.

Furthermore, pursuant to the Provisions on the Establishment of Adverse Records of Commercial Briberies in the Medicine Purchase and Sales Industry (關於建立醫藥購銷領域商業賄賂不良記錄的規定) issued by NHFPC on 25 December, 2013, which became effective on 1 March, 2014, if we are involved in any criminal, investigational or administrative procedure for any commercial bribery, we will be listed in the adverse records of commercial briberies by provincial health and family planning administrative department, and consequently our products will not be allowed to be purchased by public medical institutions or medical and health institutions receiving financial subsidies of specific territorial scope for two years. If our employees or distributors engage in corrupt practices, other improper conduct or violate the applicable anti-corruption laws, it could harm our reputation and expose us to regulatory investigations and penalties.

**If we are unable to attract, motivate and retain a sufficient number of experienced sales and marketing personnel, it could adversely affect our sales and business prospects**

We intend to enhance our market penetration and increase the market share of our existing products through efficient sales and marketing efforts and to conduct our marketing and promotion activities for our new products. The success of our strategies depends on our ability to attract, motivate and retain experienced employees in our marketing and sales service. Competition for such experienced sales and marketing personnel is highly intense. If we are unable to attract, motivate and retain a sufficient number of sales and marketing personnel, it could adversely affect our ability to continue to expand our market coverage.

**If we or our brand name fail to maintain a positive reputation, our business and prospects could be adversely affected**

According to the CIC Report, we ranked the third among all manufacturers of male fertility IVD reagents in China, having 14.3% share of this market in terms of medical institution purchase value in 2017. According to the CIC Report, end users prefer IVD reagents with comparatively strong brand recognition as they are considered of good quality. Further, brand awareness is considered as one of the entry barriers of

the PRC male fertility IVD reagent market. Please refer to the subsection headed "Industry Overview - The PRC Male Fertility IVD Reagent Market" in this document for further details of the PRC male fertility IVD reagent market entry barriers. We depend on our reputation, brand awareness of Shenzhen Huakang, our principal operating subsidiary and the registered trademark " " in many aspects of our business, including:

- to gain access to, and for our products to be perceived favourably by, the hospitals and healthcare professionals that drive demand for IVD reagents in the PRC;
- to increase market share of our products through customers' and end users' recognition.
- to competitively position ourselves and our products in the centralised procurement processes of public hospitals and medical institutions in the PRC; and
- to attract employees and distributors to work with us.

However, we cannot assure you that we will be able to maintain a positive reputation or brand name. If we or our brand name fail to maintain a positive reputation as a result of counterfeit products, lawsuits and regulatory investigations against us or adverse publicity associated with us, our products may be perceived unfavourably by hospitals, medical institutions, healthcare professionals, regulators, employees and distributors, and hence our business and prospects could be adversely affected.

**The development process of each new product is expensive, lengthy and uncertain and may adversely affect the results of our business operations**

Our long-term competitiveness depends on our ability to develop and commercialise new IVD reagents in the PRC market through our research and development activities. The new product development process is time-consuming and costly. Although all of our research and development projects were successful during the Track Record Period, we cannot assure you that our research and development activities will enable us to successfully develop new products in the future. During the Track Record Period, we completed research and development projects on 15 male fertility IVD reagents. For FY2015, FY2016, FY2017 and the five months ended 31 May 2018, we incurred research and development expenditures of RMB2.6 million, RMB1.7 million, RMB2.2 million and RMB1.2 million, respectively. It took us around 20 months from conducting feasibility studies to applying for registrations with relevant government authorities for our major male fertility IVD reagents. As at the Latest Practicable Date, we have five pipeline products, including three pipeline products at various stages of clinical trials and two pipeline products in the research and development phase. For further details, please refer to the subsection headed "Business – Research and Development" in this document. We may fail to obtain the necessary approvals and registration, including approval from the CFDA, Provincial FDAs and other relevant authorities, for the production and commercialisation of our product candidates on time or at all. Please refer to the subsection headed "Regulatory Overview – Registration Certificates of Medical Devices" in this document for further details of regulatory requirements for the registration and commercialisation of new medical device products under the PRC laws. In addition, the research and development process for IVD reagents, may be lengthy and

expensive, and the outcome may be unpredictable. In particular, the product candidates we seek to develop may fail to meet the safety, accuracy, efficiency or other standards during the research and development process.

Moreover, we cannot assure you that we will be able to successfully commercialise the new products we develop. Since the product development process and the approval process for new IVD reagents are lengthy, our products may not hold the competitive advantages in pricing or efficiency that we had anticipated during their development. We could also fail to develop and implement an effective marketing strategy with respect to those products we are able to successfully develop. Consequently, our new products may not yield the expected return on our research and development costs. If we fail to successfully develop and commercialise new products, our business prospects could be adversely affected.

**If we fail to achieve the product development timelines as disclosed in this document, it could adversely affect our business prospects**

We disclose in the subsection headed "Future Plans and **[REDACTED]** – Implementation Plans" in this document our expectations or targeted timelines relating to our new product development, including the commencement and completion of clinical trials, technical reviews or obtain registrations. The successful implementation of our new product development plan may be subject to certain business, economic and competitive uncertainties and contingencies, and will be re-evaluated from time to time thereafter based on prevailing regulations, government policies and market conditions. The actual timelines of our new product development could vary significantly from our expectations due to factors beyond our control, including delays or failures in our pre-clinical studies and research or clinical trials, the uncertainties inherent in the regulatory approval process and delays in achieving manufacturing or marketing arrangements sufficient to commercialise our products. We cannot assure you that our pre-clinical studies and research or clinical trials will be completed as planned or at all, nor can we assure you that we will submit applications or receive the required approvals from the relevant authorities as planned, or that we will be able to adhere to our current schedule for the launch of any of our product candidates. If we fail to achieve one or more of these timelines as planned, it could adversely affect our business prospects.

**Our newly launched auxiliary reproductive supplies and equipment may not be well received by customers and end users in the market**

The successful launch of our auxiliary reproductive supplies and equipment depends, to a large extent, on whether the products introduced are well received by customers and end users in the market. The primary factors which may affect the market acceptance of our new products include quality and price of our products, as well as the demands of our customers, distributors and their customers. In particular, the introduction of auxiliary reproductive equipment requires substantial investment of capital resources in our research and development. If any of our new products is not well received by customers and end users in the market because its quality is not as good as expected, it is too expensive compared to other substitutes, or for any other reason, we may not be able to recoup the investment we have made in relation to research and development of, as well as promotion and marketing activities conducted, and even further construction of production facilities for, such new products. Under such circumstance, our business, financial condition and results of operations may be adversely affected.

**We have received government grants for our research and development activities and we cannot assure you that we will continue to receive such benefits**

We have historically received government grants in the form of subsidies for different purposes, including compensation for our research and development costs, and grants for improvement of our research facilities in relation to specific projects assigned to us by the relevant authorities, and subsidies in recognition of our achievements. For FY2015, FY2016, FY2017 and the five months ended 31 May 2018, our other incomes from government grants amounted to RMB861,000, RMB151,000, RMB558,000 and RMB19,000, respectively. Our eligibility for government grants are dependent on a variety of factors, including the assessment with respect to our improvement on existing technologies and relevant government policies. We cannot assure you that we will continue to receive similar levels of government grants, or at all. If we no longer receive government grants or the amount of government grants we receive decrease significantly, our research and development costs may increase, which will affect our profit level.

**If we suffer substantial disruption to our production facilities by any reason beyond our control, our business, financial condition and results of operations could be adversely affected**

Substantially all of our revenue was generated by the sale of products manufactured at our production plant located in the Junxuan Property. The continued operation of our production facility can be substantially interrupted due to a number of factors, many of which are beyond our control, including fire, flood, earthquakes, power outages, fuel shortages, mechanical breakdowns, terrorist attacks and wars, or other natural disasters, as well as loss of licences, certifications and permits, changes in governmental planning for the land underlying these facilities and regulatory changes.

If the operation of our production facilities is substantially disrupted, we may not be able to replace or repair the damaged equipment or facilities at such facilities, or use a different facility or a third party contractor to continue our production in a timely and cost-effective manner or at all. As a result, we may fail to fulfil contractual obligations or meet market demands for our products, and our business, financial condition and results of operations could be adversely affected.

**Our historical non-compliance in relation to inadequate contributions to social insurance and housing provident funds may lead to imposition of penalties or other liabilities**

Up to 31 July 2017, our contributions to the social insurance and housing provident funds for all of our employees were calculated based on the minimum wages in Shenzhen, whereas under the applicable PRC laws and regulations, such contribution should instead be calculated based on actual wages of the employees. The aggregate outstanding social insurance contribution for the period from 1 August 2015 to 31 July 2017 was RMB830,868, and the aggregate outstanding housing provident fund contribution during the period from 1 August 2015 to 31 July 2017 was RMB262,087, respectively.

Our PRC Legal Advisers have advised that the relevant PRC authorities may notify us that we are required to pay the outstanding social insurance contributions and/or the outstanding housing provident fund contribution within a prescribed time limit. In the event that we fail to do so, the relevant authorities may apply for an order for payment from the relevant PRC court and we may be subject to fine. Please refer to the subsection headed "Business – Legal and Compliance – Non-compliance Incidents" in this document

for further details. We cannot assure you that the relevant local government authorities will not require us to pay the outstanding social insurance and housing provident fund contributions within a prescribed time or impose penalties on us, which may affect our business, financial condition and results of operations.

**If the PRC government decides to impose price control on our products, our business, profitability, results of operations and prospects would be materially and adversely affected**

There is currently no price control imposed by the PRC government in relation to our medical devices sold in the PRC. Whereas the prices of certain pharmaceutical products sold in the PRC are subject to price controls mainly in the form of fixed prices or price ceilings. Manufacturers of pharmaceutical products cannot set the actual price for any given price-controlled product above the price ceiling or deviate from the fixed price imposed by the government. In the recent years, the PRC government has increased its efforts in stepping up the healthcare system reform and its involvement in the administration of the procurement process used by public hospitals for selecting their suppliers for medical devices and their procurement prices. We are unable to predict any future changes to the price control policy to be adopted by the PRC government in the healthcare sector. In the event of any changes in such policy resulting in all or some of our products being subject to price control, our business, profitability, results of operations and prospects would be materially and adversely affected.

**We face risks from the handling and storage of flammable, corrosive, hazardous and toxic materials**

Some of our raw materials, such as methanol, anhydrous ethanol and sulfuric acid, are flammable, corrosive, hazardous or toxic. Since we do not have long-term storage facilities for these materials, we must store them onsite pending to use them in our production process. The storage of these flammable, corrosive, hazardous or toxic materials near our production facilities and the handling of these materials in the production process pose inherent risks. Any accident could materially disrupt the production of our products and may give rise to potential death or injuries of our employees. While we have not experienced any fatalities or serious injuries to our employees and have a sound health and occupational safety policy, we cannot eliminate entirely the risk of accidents arising from the handling or storage of these flammable, corrosive, hazardous or toxic materials. If an accident was to occur, we could be held liable and our employees could be injured or killed, which could adversely affect our business, results of operations and financial condition.

**Any increase in the prices of raw materials may lead to adverse impact on our business and profitability**

We are exposed to the risk of price increase in the raw materials. We procure over 180 types of raw materials for the production of IVD reagents as well as packaging materials for the packaging of our products. For FY2015, FY2016, FY2017 and the five months ended 31 May 2018, our costs of raw materials accounted for 44.4%, 43.5%, 44.1% and 43.4% of our cost of sales. According to the CIC Report, the market price ranges of our major raw materials were stable during the Track Record Period. The prices of our five major raw materials, namely, BAPNA (Nα-Benzoyl-L-arginine 4-nitroanilide hydrochloride) with a purity at 98% and a specification of 10g per bottle, elastase monoclonal antibody with a specification of 1mg per reagent, 4-methylumbelliferyl b-D-lactoside, with a specification of 250mg per bottle, ficoll-PM400 with a specification of 500g per bottle, β-D-Glucosidase with a specification of 5KU per bottle range from RMB2,800 to RMB3,400, RMB5,000 to RMB6,000, RMB2,000 to RMB3,300, RMB20 to RMB24 and

RMB3,900 to RMB4,300, respectively, from 2012 to 2017. However, the availability and prices of raw materials required for our production of IVD reagents may be impacted by factors such as general market conditions, including increased demand for such materials within in a specific period, weather conditions and the occurrence of natural disasters, many of which are beyond our control. We may also be unable to respond to increases in the prices for raw materials, and unable to pass on such price increases to our customers due to competitive conditions or other reasons. In the event that we are unable to obtain supply of the raw materials necessary for the production of our products at commercially acceptable prices, we may be forced to reduce, suspend or cease production or sale of certain of our products, and our revenue could be adversely affected. Increases in the prices of raw materials necessary for the production of our products could also adversely affect our margins for the relevant product.

**Our historical revenue may not be indicative of our future performance**

The financial performance of our Group is affected by numerous factors, including the effectiveness of our marketing and promotional activities, competition from manufacturers providing similar products, as well as change of market demand and market perception. As market conditions change, our financial performance may be adversely affected and our revenues and profitability may decline. Potential investors should not rely on our historical results to predict our financial performance in the future.

**If we are unable to adequately protect our intellectual properties, our business may be adversely affected**

As at the Latest Practicable Date, we had certain intellectual property rights. Our commercial success depends partly on our ability to protect our existing intellectual properties. Please refer to the subsection headed "Statutory and General Information – Further Information about Our Business – 2. Our Intellectual Property Rights" in Appendix IV to this document for further details of our intellectual property rights. If we fail to adequately protect our intellectual property rights, competitors may imitate or use our intellectual properties without our authorisation. We may not be able to identify any unauthorised use of our intellectual properties or take appropriate actions in a timely manner, and investigations and disputes relating to the unauthorised use of our intellectual properties may be time consuming and costly. Furthermore, we cannot assure you that our intellectual property rights will not be infringed in the future. Any infringement of our intellectual property rights may divert our management resources, and could have an adverse effect on our business and reputation.

**If counterfeit versions of our products become available in the market, it could affect our reputation, business and results of operations**

Our products are subject to competition, negative publicity and liability claims in connection with the counterfeits, which are products without proper licences or approvals and are fraudulently mislabelled with respect to their manufacturers. Counterfeiters may illegally manufacture, market and sell their products under our brand name or similar brand names. Counterfeit products may be sold at lower prices than the authentic products due to their lower production costs, and in some cases, are very similar in appearance to the authentic products. Counterfeit products may or may not have the same effect as the authentic counterparts. If counterfeit products are illegally sold under our brand name or similar brand names and give any inaccurate experimental result or any other inconvenience to end-users, we may be associated with negative publicity and liability claims resulting from any incidents, regardless of its authenticity, relating to

our Company or products. In addition, consumers may purchase counterfeit products that directly compete with our products, which could have an adverse effect on our business and results of operations. There may not be an effective counterfeit enforcement system in the markets we operate, and the continued proliferation of counterfeit products may adversely affect our reputation, business and results of operations.

**If we cannot successfully implement our expansion plans, or if we fail to obtain sufficient funding for our expansion plans, our business and growth prospects may be adversely affected**

We plan to expand our business by further expanding our product portfolio, improving our existing products and strengthening our product research and development capabilities. The total funding required for the implementation of our business strategies is estimated to be approximately RMB22.6 million, among which approximately RMB**[REDACTED]** is expected to be financed by the net proceeds from the **[REDACTED]** based on the **[REDACTED]** of HK$**[REDACTED]** per **[REDACTED]**, being the midpoint of the indicative **[REDACTED]** of HK$**[REDACTED]** per **[REDACTED]** to HK$**[REDACTED]** per **[REDACTED]**, and approximately RMB**[REDACTED]** is expected to be financed by the internal financial resources of our Group. Please refer to the subsection headed "Business – Our Strategies" in this document for details. If our expansion plans are proved to be wholly or partially unsuccessful, our cash flows and profitability may be materially and adversely affected. We may need to obtain additional financing in the event that our internal resources are insufficient to fulfil our cash needs. Incurring indebtedness would increase our finance costs and could result in imposition of operating and financing covenants on our business which may, among other things, restrict our business operations and the implementation of our expansion plans, and/or our ability to pay dividends to our shareholders.

In addition, our expansion plans may place substantial demands on our management and our operational, technological, sales and marketing and other resources. To manage and support our growth, we may need to (i) develop new products and improve our existing products; (ii) improve our research and development capabilities; (iii) recruit, train and retain existing and/or additional qualified technicians, research and development personnels, sales and marketing staff and production staff; and (iv) enhance our sales and marketing activities. All of these endeavours will require the substantial attention and time from our senior managements, and may incur significant additional expenditures.

We face uncertainties in executing our expansion plans. The schedule of our expansion plans could be materially and adversely affected by technical difficulties, human or other resource constraints, or other reasons. Further, the costs associated with the execution of our expansion plans may exceed the budget that we anticipate. We cannot assure you that we will be able to manage any future growth effectively and efficiently, and our ability to capitalise on new business opportunities may be materially and adversely affected if we fail to do so, which would in turn materially adversely affect our business, financial condition, results of operations and prospects.

**If we fail to obtain sufficient capital resources for our future growth and other operational needs, it could adversely affect our business prospects**

We require additional capital resources to pursue our growth strategy and to remain competitive by responding in a timely manner to technological changes or market demand in the PRC IVD industry. We expect to meet our funding needs through cash flows from operations, bank borrowings and other external financing sources. Our ability to obtain additional financing will depend on a number of factors, including our financial condition, results of operations and cash flows, the PRC's economic condition, costs of

financing and regulatory requirements. If we cannot obtain sufficient funding on acceptable terms, we may not be able to successfully implement our business strategies, and our business prospects could be materially and adversely affected.

**If our preferential tax treatments are not received, become unavailable or otherwise change or terminate, it could adversely affect our financial condition and results of operations**

We currently benefit from certain preferential tax treatments. In particular, Shenzhen Huakang, our principal operating subsidiary in the PRC was recognised as High and New Technology Enterprise* (國家高新技術企業) and Shenzhen High and New Technology Enterprise* (深圳高新技術企業) during the Track Record Period. As a result of these qualifications, we have applied and were granted by the relevant tax authority a preferential tax treatment for the PRC income tax rate of 15%, rather than the 25% income tax rate applicable to the PRC tax resident enterprises under the PRC EIT Law. For FY2015, FY2016, FY2017 and the five months ended 31 May 2018, tax concession attributable to our preferential tax treatments amounted to RMB847,000, RMB1.0 million, RMB1.1 million and RMB520,000, respectively. For further details, please refer to Note 10 "Income Tax Expense" to the Accountants' Report included in Appendix I to this document.

The entitlement of such tax benefit is subject to renewal every three years by the relevant tax authority in the PRC. The latest approval for Shenzhen Huakang enjoying such tax benefit was obtained in October 2017 for the next three years. Unless eligible for other preferential tax treatments, we can only continue to receive such preferential tax treatment if the relevant authorities determine that we are qualified. It depends on a number of factors, including, whether we have our own independent and core intellectual property rights, whether our products fall within the scope of supported high and new technologies, whether our research and development expenses reach certain threshold. Therefore, we cannot assure you that we will be able to renew the tax benefit in the future. If we fail to renew such tax benefit when the relevant term expires, the applicable income tax rates would increase to 25%, which could have a material adverse effect on our financial condition and results of operations.

**If we experience credit risks in collecting payment from certain customers, it could adversely affect our cash flow**

We granted a credit period of up to 180 days to some of our direct sales customers which comprise mainly public hospitals in the PRC. For the sales to our distributors, we sell our products either on one to three months' credit or payment on delivery depending on the credibility of the relevant distributors and our relationship with them. For FY2015, FY2016, FY2017 and five months ended 31 May 2018, our trade receivables turnover days were 117, 121, 132 and 146, respectively. As at 31 May 2018, RMB8.9 million, or 78.4%, of our trade receivables were past due but not impaired, of which RMB4.6 million was past due for more than 90 days. On the other hand, we purchase raw materials from our suppliers which provide us with credit terms from 30 to 90 days. For FY2015, FY2016, FY2017 and five months ended 31 May 2018, our trade payables turnover days were 53, 45, 47 and 46, respectively. As a result, our trade receivables turnover days are generally longer than our trade payables turnover days. If we fail to properly manage our liquidity position in view of the possible cash flow mismatch, and if the credit worthiness of our customers deteriorate and they are unable to settle their account receivables in full or in a timely manner, we could be required to cease or terminate our relationships with them and our financial position, profitability and cash flow may be adversely affected.

**Our insurance coverage is limited which may not cover all our potential losses and liabilities**

We have limited insurance coverage, and our current insurance coverage does not contain product liability insurance or business interruption insurance. If we experience any product liability claims or disruptions to our business, we might incur substantial costs and diversion of resources, which may not be fully covered by our current insurance package. Moreover, there are certain types of losses which are generally not covered by insurance because they are either uninsurable or it is not cost justifiable to insure against such risks, such as losses from war, terrorism, acts of god, earthquakes, typhoons, flooding and other natural disasters. Should an uninsured loss or a loss in excess of insured limits occur, we may suffer from financial losses, or damages to our production facilities, as well as future revenue derived from the relevant production facilities. Under such circumstances, our insurance coverage, may not adequately protect us against all potential losses and liabilities that we may suffer in the course of business operations, which may result in adverse effects on our business, financial condition and results of operations.

**If we fail to comply with environmental regulations or such regulations change, it may increase our costs for legal compliance and we may be exposed to potential regulatory penalties**

As our production facilities are located in the PRC, we are subject to the PRC laws, rules and regulations concerning environmental protection. In addition, we are required to obtain clearances and authorisations from government authorities for the treatment and disposal of discharge. The costs we incurred for compliance with environmental regulations may materially increase our total costs and decrease our profit. Any violation of these laws, rules or regulations may result in substantial fines, revocations of operating permits, shutdown of our production facilities and even criminal sanctions. Furthermore, the PRC government may take further steps towards the adoption of more stringent environmental regulations. If there is any change in the environmental regulations, we may need to incur substantial expenditures to install, replace, upgrade or supplement our pollution control equipment, take additional protective and other measures against potential contamination or injury caused by hazardous materials, or make operational changes to limit any adverse effect or potential adverse effect on the environment.

**Our success and business operations are largely dependent on our senior management team and our ability to attract and retain competent personnel**

Our business growth largely depends on the continued contribution from, and our ability to retain, our senior management and competent personnel. The expertise and experience of our senior management in the industry are crucial to our success. In particular, Mr. Zhang, our Executive Director, chairman of the Board and our Controlling Shareholder; Mr. Chang, a director of Shenzhen Huakang and our Controlling Shareholder; and Mr. Zhang Chunguang, our Executive Director and chief executive officer, have accumulated extensive experience in the industry of medical devices over the year. We believe they possess the expertise to continue our successful expansion into the PRC male fertility IVD reagent market. Our success also depends on our major personnel with extensive managerial, research and development or sales and marketing experience. For details of our senior management, please refer to the section headed "Directors and Senior Management" in this document. We cannot assure you that we will be able to retain our senior management and major personnel in the future. Should any of our current senior management or major personnel become unable or unwilling to work for our Company, we may face difficulties in looking for replacements and incur additional expenses to recruit and retain suitable replacements. In the event that we are unable to recruit new talents who have similar knowledge or experience, or if any of our senior

management or major personnel joins our competitors or establishes a new company that becomes our competitor, our business may be adversely affected. In addition, competition for qualified employees or increase in minimum wages, social insurance and mandatory provident fund contributions could also require us to pay higher wages, which could result in higher staff costs.

## RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

### The PRC IVD reagent industry is highly regulated and any failure to obtain and maintain the required licenses, approvals and permits could impair our ability to conduct our business

The PRC IVD reagent industry is heavily regulated. We are governed by various local, regional and national regulatory regimes in various aspects of our operations, including permits, licencing and certification requirements, operating and safety standards, as well as environmental protection regulations. We are required to obtain and maintain different licenses, approvals and permits, include, without limitation, medical device manufacturing permit and medical device registration certificates. Each of such Licences and certificates has a specified term and is subject to periodical renewal. Please refer to the section headed "Regulatory Overview" in this document for further details.

Moreover, the criteria used in reviewing applications for, or renewals of permits, licenses and approvals may change from time to time, and we cannot assure you that we will be able to meet new criteria that may be imposed in order to obtain or renew the necessary permits, licenses and approvals. If we fail to maintain or renew material permits, licenses and approvals, our ability to conduct our business could be materially impaired. Furthermore, if the interpretation or implementation of existing laws and regulations changes, or new regulations come into effect, so as to require us to obtain any additional permits, licenses or approvals not previously required to operate our business, we cannot assure you that we will not encounter material delays or difficulties in fulfilling the necessary conditions to obtain or renew all necessary permits, licenses and approvals for our business in a timely manner, or at all, in the future.

Furthermore, additional or more stringent regulations may be adopted from time to time in the PRC. Such developments may require us to improve our products to meet new standards, adopt additional internal measures or make operational changes. Any such developments could lead to increased cost of legal compliance, which may materially and adversely affect our business and results of operations.

### Our business may be affected by adverse news, scandals or other incidents that have a negative impact on the reputation and public perception of the PRC IVD reagent industry

We believe that the PRC IVD reagents market is highly dependent upon public perception regarding the safety, efficacy and quality of IVD reagents. Incidents as to the quality or safety of IVD reagents and negative publicity about IVD reagent products may damage the reputation of not only the parties involved, but also the PRC IVD reagent industry in general, even if such incidents have no relation to us, our suppliers or our distributors. Adverse news, scandals or other incidents about the IVD reagents in general or that of our products or any similar products distributed by other companies, could have a negative impact on the reputation and public perception of the IVD reagents, consequently, adversely affect the demand for our products and our business, financial condition and results of operations.

## RISKS RELATING TO THE PRC

### Changes in the political, economic and social environment as well as the laws and regulations in the PRC could have an adverse effect on our business

Since our operating subsidiary are located in, and our revenue is derived from our operations in the PRC, our business, financial condition, results of operations and prospects are subject to the risks of future economic, political and legal developments in the PRC. The PRC economy differs from the economies of other developed countries in terms of structure, government intervention, development, growth rate, control of foreign exchange, and resource allocation. The PRC government continues to play a significant role in regulating industries by promulgating economic policies, and a significant portion of productive assets in China is still government-owned. The PRC government also exercises significant control over the economy through the allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. It is anticipated that the PRC government will continue to further implement economic reforms, further reduce government interference on enterprises, and rely more on free market mechanisms for the allocation of resources, bring positive effect on our overall and long-term development. Any changes in the political climate, economic and social situation, the laws, regulations and policies of the PRC arising therefrom, may have an adverse effect on the present or future operations of our Group. With our business and operations substantially based in the PRC, our operation and financial results could be adversely affected by the restrictive or austere policies introduced by the PRC government. We may not be able to capitalise on economic reform measures adopted by the PRC government. We cannot assure you that the PRC government will not impose economic and regulatory controls that may adversely affect our business, financial positions and results of operations.

### The legal system of the PRC is still developing and there are uncertainties which may affect the protection afforded to our business and our Shareholders

Substantially all of our business and operations are conducted in China and governed by the PRC laws, rules and regulations. The PRC legal system is a civil law system based on written statutes where, unlike common law systems, decided legal cases have limited value as precedent. So far the PRC has not developed a fully integrated legal system and recently enacted laws, rules and regulations may not sufficiently cover all aspects of economic activity in the PRC. These laws, rules and regulations are relatively new and are often changing, and published cases concerning these laws, rules and regulations are limited. Consequently, their interpretation and enforcement involve a fair amount of uncertainties compared to other jurisdictions. In addition, the PRC legal system is based in part on government policies and administrative rules that may have retroactive effect, and we may be subject to retroactive regulatory actions as a result. Furthermore, the legal protections available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted resulting in substantial costs and diversion of resources and management attention if we seek to enforce our Group's legal rights through court proceedings. In addition, compared to more developed legal system, the PRC court authorities have substantially wider discretion in interpreting and implementing statutory and contractual provisions. Therefore, the outcome of the court proceedings may be difficult to evaluate. These uncertainties may have a negative effect on the protection afforded to our business and our Shareholders, which could in turn materially and adversely affect our business and results of operations.

**Changes in the PRC government policy in foreign investment in the PRC may adversely affect our business and results of operations**

According to the latest version of the Catalogue of Industries for Guiding Foreign Investment (《外商投資產業指導目錄》) (the "**Foreign Investment Catalogue**"), the latest version of which became effective on 28 July 2017 and the Provisions on Guiding the Orientation of Foreign Investment Direction (《指導外商投資方向規定》) which came into effect on 1 April 2002, our business does not belong to the restricted or prohibited category. As the Foreign Investment Catalogue is updated every few years, there can be no assurance that the PRC government will not change its policies in a manner that would render part or all of our businesses to fall within the restricted or prohibited categories. If we cannot obtain approval from relevant approval authorities to engage in businesses which become prohibited or restricted for foreign investors, we may be forced to restructure our business which have become restricted or prohibited for foreign investment. If we are forced to adjust our corporate structure or business line as a result of changes in government policy on foreign investment, our business, financial condition and results of operations may be materially and adversely affected. Please refer to the subsection headed "Regulatory Overview – Legal Supervision Over The Foreign Investment in the PRC – The Catalogue of Industries for Guiding Foreign Investment and Provisions on Guiding the Orientation of Foreign Investment" in this document for further details.

**The PRC tax laws on dividend distribution may adversely affect dividends received by our Company and our Shareholders and gains on the sale of our Shares may be subject to withholding taxes under the PRC tax laws**

Under the PRC EIT Law, a withholding income tax at the rate of 20.0% is applicable to dividends derived from sources within the PRC paid by foreign-invested enterprises to their non-PRC parent companies. However, pursuant to the implementation rules of the PRC EIT Law, a reduced withholding income tax rate of 10.0% shall be applicable in such case. Therefore, a withholding tax at the rate of 10% will be applicable to any dividends paid to our Company and our Shareholders.

Furthermore, pursuant to Circular of the SAT on Strengthening the Administration of Enterprise Income Tax on Income from Equity Transfers of Non-resident Enterprise (《國家税務總局關於加強非居民企業股權轉讓所得企業所得税管理的通知》, the "**Circular No. 698**"), where a non-PRC resident enterprise indirectly transfers properties such as equity interests of a PRC resident enterprise (the "**Indirect Transfer**"), the non-PRC resident enterprise shall report the Indirect Transfer to the relevant PRC tax authority. On 3 February 2015, SAT issued the Announcement of the SAT on Several Issues Concerning the Enterprise Income Tax on Indirect Transfers Properties by Non-resident Enterprise (《國家税務總局關於非居民企業間接轉讓財產企業所得税若干問題的公告》, the "**Circular No. 7**"), which replaces the relevant provisions on Indirect Transfer in Circular No. 698. The conditional reporting obligation of the non-PRC resident enterprise under Circular No. 698 is replaced by a voluntary reporting by the transferor, transferee or the underlying PRC enterprise being transferred. If the Indirect Transfer is subject to EIT, the transferee has an obligation to withhold tax from the sale proceeds, unless the transferor reports the transaction to the relevant PRC tax authority under Circular No. 7. The EIT payable is 10.0% of the equity transfer income if the transferor is a non-PRC resident.

Whether Circular No. 698 and Circular No. 7 would apply to the Indirect Transfer of equity interests in our PRC subsidiary depends on the ultimate determination of the PRC tax authority. However, it is currently unclear how the relevant PRC tax authorities will implement or enforce above Circular No. 698 and Circular No. 7 and whether such EIT on equity transfer income will be subject to any further change in the future.

**Distribution and transfer of funds may be subject to restrictions under the PRC law**

Our Company is a holding company incorporated in the Cayman Islands and does not have any business operations other than investments in the subsidiaries. Our Company relies entirely on the dividend payments from our subsidiaries. Under the PRC laws, dividends from our subsidiary in the PRC may only be paid out of distributable after-tax profits, less any recovery of accumulated losses and allocations to statutory funds which are not available for distribution as cash dividends. Any distributable profits that are not distributed in a given year will be retained and made available for distribution in subsequent years. The calculation of distributable profits under the PRC accounting principles is different in many respects from Hong Kong accounting principles. Distributions by our subsidiaries in the PRC to our Company may be subject to governmental approval and taxation. These requirements and restrictions may affect our ability to pay dividends to our Shareholders. Any transfer of funds from our Company to our subsidiaries in the PRC, either as a shareholder loan or as an increase in registered capital, is subject to registration and/or approval granted by the PRC governmental authorities. These limitations on the free flow of funds between our Company to our subsidiaries in the PRC could restrict our ability to act in response to changing market conditions in a timely manner.

**Our business may be adversely affected by the PRC government's control of foreign currency conversion**

Currently, Renminbi is not a freely convertible currency, and conversion and remittance of foreign currencies are subject to the PRC foreign exchange laws and regulations which would affect exchange rates and our foreign exchange transactions. The exchangeable value of Renminbi is subject to changes in the PRC policies and international economic and political developments. Our PRC subsidiary is subject to the PRC rules and regulations on currency conversion. In the PRC, SAFE regulates the conversion of RMB into foreign currencies. Foreign invested enterprises are required to apply to bank for foreign exchange registration, which is regulated by SAFE or its local branches indirectly. Under relevant PRC foreign exchange laws and regulations, payment of current account items, including profit distributions and interest payment are permitted to be made in foreign currencies without prior government approval but are subject to certain procedural requirements. Strict foreign exchange control continues to apply to capital account transactions, which must be approved by and/or registered with SAFE.

In addition, as all the proceeds from the **[REDACTED]** will be received in Hong Kong dollars, any appreciation of Renminbi against U.S. dollars, Hong Kong dollars or any other foreign currencies may result in the decrease in the value of our proceeds from the **[REDACTED]**. We also cannot assure you that under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the existing PRC foreign exchange regulations, following the completion of the **[REDACTED]**, we will be able to pay dividends in foreign currencies without prior approval from the SAFE, but we are required to present documentary evidence of such transactions and to process such transactions at designated qualified foreign exchange banks within China. We cannot assure that such process will be as smooth as we

anticipate currently. Furthermore, the government control on foreign currency conversion may restrict our ability to obtain sufficient foreign exchange for dividend payments to our Shareholders or to satisfy any other foreign exchange requirements.

## RISKS RELATING TO THE [REDACTED]

### No public market currently exists for our Shares

Prior to the **[REDACTED]**, there is no public market for our Shares. The **[REDACTED]** of, and the permission to deal in, our Shares on the Stock Exchange do not guarantee the development of an active public market or the sustainability thereof following completion of the **[REDACTED]**. Factors such as variations in our revenues, earnings and cash flows, loss of major personnel, litigation or fluctuations in the market prices for our products and the liquidity of the market of our Shares could cause the market price and trading volume of our Shares to change substantially. In addition, both the market price and liquidity of our Shares could be adversely affected by factors beyond our control and unrelated to the performance of our business, especially if the financial market of Hong Kong experiences a significant price and volume fluctuation. In such cases, investors may not be able to sell their Shares at or above the **[REDACTED]**.

### Investors may experience dilution if we issue additional Shares in the future

The increase in the number of Shares outstanding after the issue would result in the reduction in the percentage of ownership of our Shareholders and may result in a dilution in the earnings per Share and net asset per Share. In addition, we may need to raise additional funds in the future to finance business expansion or new development and acquisitions. If we raise funds through the issuance of new equity or equity-linked securities of our Company other than a pro-rata basis to the existing Shareholders, the shareholding of such Shareholders may be reduced or such new securities may confer rights and privileges that take priority over those conferred by **[REDACTED]**.

### Future sale of our Shares by existing Shareholders could materially and adversely affect the prevailing market price of our Shares

Our Shares beneficially owned by the existing Shareholders are subject to certain lock-up periods. For details, please refer to the subsection headed "**[REDACTED]**" in this document. There are no assurances that any Controlling Shareholders will not dispose of our Shares held by them following the expiration of the lock-up periods, or any Shares they may own in the future. Our Group cannot predict the effect, if any, of any future sales of our Shares by any Controlling Shareholder on the market price of our Shares. Sale of a substantial amount of Shares by any of them or the issue of a substantial amount of new Shares, or the market perception that such sale or issue may occur, could materially and adversely affect the prevailing market price of our Shares.

**You may experience difficulties in enforcing the shareholders' rights as the laws of the Cayman Islands may differ from those of Hong Kong or other jurisdictions where investors may be located**

Our Company is incorporated in the Cayman Islands and its affairs are governed by the Memorandum, the Articles of Association, the Companies Law and common law applicable in the Cayman Islands. The laws of Cayman Islands may differ from those in Hong Kong or other jurisdictions where investors may be located. As a result, minority Shareholders may not enjoy the same rights as pursuant to the laws of Hong Kong or such other jurisdictions. A summary of the company law of the Cayman Islands on protection of minority shareholders is set out in Appendix III to this document.

## RISKS RELATING TO THIS DOCUMENT

**You should read the entire document and we strongly caution you not to place any reliance on any information contained in the press, articles, other media and/or research reports regarding us, our business, our industry and the [REDACTED]**

You should rely solely upon the information contained in this document in making your investment decision regarding our Shares and we do not accept any responsibility for the accuracy or completeness of the information contained in the press, articles, other media and/or research analyst reports nor the fairness or appropriateness of any forecasts, projections, views or opinions expressed by the press, other media and/or research analysts regarding our Shares, the **[REDACTED]**, our Group, our business or our industry. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information, forecasts, projections, views or opinions expressed or any such publications. To the extent that such statements, forecasts, views or opinions are inconsistent or conflict with the information contained in this document, we disclaim them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this document only and should not rely on any other information.

**Certain information, forecasts and statistics contained in this document are derived from publicly available official sources, which have not been verified by us**

This document contains information, forecasts and statistics related to, among other things, the PRC, the PRC economy and the monetary policies in the PRC. Such information, forecasts and statistics have been derived from various publicly available government and official sources. We believe that the sources of such information, forecasts and statistics are appropriate sources for such information, forecasts and statistics and have taken reasonable care in the extraction and reproduction of such information, forecasts and statistics. We have no reason to believe that such information, forecasts or statistics are false or misleading in any material respect or that any fact has been omitted that would render such information, forecasts or statistics false or misleading in any material respect. However, we have not independently verified such information, forecasts and statistics and no representation is given as to their correctness, reliability or accuracy. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the information, forecasts and statistics in this document may be inaccurate or may not be comparable to information, forecasts and statistics produced with respect to other economies. We cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case in other jurisdictions. Therefore, you should not unduly rely upon the information, forecasts and statistics contained in this document.

# RISK FACTORS

**This document contains forward-looking statements relating to our plans, objectives, expectations and intentions, which may not represent our overall performance for periods of time to which such statements relate**

This document contains certain forward-looking statements and information relating to us and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this document, the words "aim," "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "going forward," "intend," "ought to," "may," "might," "plan," "potential," "predict," "project," "seek," "should," "will," "would" and similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialise or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this document. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing us which could affect the accuracy of forward-looking statements include, but are not limited to, those set forth in the section headed "Forward-Looking Statements" in this document.

Subject to the requirements of the GEM Listing Rules, we do not intend to publicly update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this document are qualified by reference to this cautionary statement.

**[REDACTED]**

**[REDACTED]**

**[REDACTED]**

**[REDACTED]**

**[REDACTED]**

## DIRECTORS

| Name | Address | Nationality |
|---|---|---|
| ***Executive Directors*** | | |
| Zhang Shuguang (張曙光) | Flat/Room F, 1/F,<br>No.60 Sassoon Road,<br>Pok Fu Lam,<br>Hong Kong | Chinese |
| Zhang Chunguang (張春光) | 902, Unit 1, Block C,<br>Guanhaitai Garden,<br>Chuangye Road,<br>Nanshan District,<br>Shenzhen,<br>Guangdong,<br>the PRC | Chinese |
| Poon Lai Yin Michael (潘禮賢) | Flat D, 33/F, Block 5,<br>Sorrento,<br>1 Austin Road West,<br>Yau Ma Tei,<br>Kowloon,<br>Hong Kong | Chinese |
| ***Independent Non-executive Directors*** | | |
| Yeung David Wai Chow (楊煒秋) | Flat E, 59/F, Block 1,<br>Bellagio,<br>33 Castle Peak Road,<br>Sham Tseng,<br>New Territories,<br>Hong Kong | Chinese |
| Kwok Chi Shing (郭志成) | Flat J1, 9/F,<br>Wei Chien Court,<br>Wyler Gardens,<br>To Kwa Wan,<br>Kowloon,<br>Hong Kong | Chinese |
| Chan Kin Sang (陳健生) | Room A, 23/F, Block 8,<br>Cavendish Heights,<br>33 Perkin's Road,<br>Jardine's Lookout,<br>Hong Kong | Chinese |

Please refer to the section headed "Directors and Senior Management" in this document for further information of our Directors.

# DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

## PARTIES INVOLVED IN THE [REDACTED]

| | |
|---|---|
| **Sole Sponsor** | **RHB Capital Hong Kong Limited**<br>*(a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO)*<br>12/F, World-Wide House,<br>19 Des Voeux Road Central,<br>Hong Kong |
| **[REDACTED]** | **[REDACTED]** |
| **[REDACTED]** | **[REDACTED]** |
| **[REDACTED]** | **[REDACTED]** |

**[REDACTED]**

**Legal advisers to our Company**

*As to Hong Kong laws*
**Zhong Lun Law Firm**
4/F, Jardine House,
1 Connaught Place,
Central,
Hong Kong

*As to PRC laws*
**Zhong Lun Law Firm**
36-37/F, SK Tower,
6A Jianguomenwai Avenue,
Chaoyang District,
Beijing,
the PRC

*As to Cayman Islands law*
**Conyers Dill & Pearman**
Cricket Square,
Hutchins Drive,
P.O. Box 2681,
Grand Cayman KY1-1111,
Cayman Islands

**Legal advisers to the Sole Sponsor and the [REDACTED]**

*As to Hong Kong laws*
**Miao & Co. (in Association with Han Kun Law Offices)**
Rooms 3901-05, 39/F,
Edinburgh Tower, The Landmark,
15 Queen's Road Central,
Hong Kong

*As to PRC laws*
**Han Kun Law Offices**
Room 2103-2104, 21/F,
Tower 3, Kerry Plaza,
1-1 Zhongxinsi Road,
Futian District,
Shenzhen,
the PRC

# DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

| | |
|---|---|
| **Auditor and reporting accountants** | **Deloitte Touche Tohmatsu**<br>35/F, One Pacific Place,<br>88 Queensway,<br>Hong Kong |
| **Industry consultant** | **China Insights Consultancy Limited**<br>10/F, Tomorrow Square,<br>399 West Nanjing Road, Huangpu District,<br>Shanghai,<br>the PRC |
| **Property valuer** | **LCH (Asia-Pacific) Surveyors Limited**<br>17th Floor, Champion Building,<br>Nos. 287-291 Des Voeux Road Central,<br>Central,<br>Hong Kong |
| **[REDACTED]** | **[REDACTED]** |

# CORPORATE INFORMATION

| | |
|---|---|
| **Registered office** | **[REDACTED]** |
| **Head office and principal place of business in Hong Kong** | 2/F, 100 Des Voeux Road Central,<br>Central,<br>Hong Kong |
| **Principal place of business in the PRC** | 1-3/F, Building D, Shenzhen Junxuan,<br>No.16 Yinkui Road,<br>Kui Xin Community,<br>Kui Chong Office,<br>Dapeng New District,<br>Shenzhen,<br>the PRC |
| **Company's website** | www.szhuakang.com<br>*(the contents of the website do not form part of this document)* |
| **Company secretary** | Chau Lai Ki (周麗麒) *Certified Public Accountant*<br>Flat F, 31/F,<br>Hang Yang House,<br>Tsuen Wan Centre,<br>Tsuen Wan,<br>New Territories,<br>Hong Kong |
| **Authorised representatives (for the purpose of the GEM Listing Rules)** | Poon Lai Yin Michael (潘禮賢) *Certified Public Accountant*<br>Flat D, 33/F, Block 5,<br>Sorrento,<br>1 Austin Road West,<br>Yau Ma Tei,<br>Kowloon,<br>Hong Kong<br><br>Zhang Shuguang (張曙光)<br>Flat/Room F, 1/F,<br>No.60 Sassoon Road,<br>Pok Fu Lam,<br>Hong Kong |

# CORPORATE INFORMATION

| | |
|---|---|
| **Compliance officer** | Poon Lai Yin Michael (潘禮賢) *Certified Public Accountant*<br>Flat D, 33/F, Block 5,<br>Sorrento,<br>1 Austin Road West,<br>Yau Ma Tei,<br>Kowloon,<br>Hong Kong |
| **Members of the audit committee** | Kwok Chi Shing *(Chairman)*<br>Yeung David Wai Chow<br>Chan Kin Sang |
| **Members of the remuneration committee** | Kwok Chi Shing *(Chairman)*<br>Yeung David Wai Chow<br>Zhang Chunguang |
| **Members of the nomination committee** | Zhang Shuguang *(Chairman)*<br>Yeung David Wai Chow<br>Chan Kin Sang |
| **[REDACTED]** | **[REDACTED]** |
| **[REDACTED]** | **[REDACTED]** |
| **Principal banks** | **Industrial and Commercial Bank of China, Shenzhen Xinsha Branch**<br>1st Floor, Times Center Building,<br>Center Road, Xinqiao Street, Bao'an District,<br>Shenzhen,<br>the PRC<br><br>**Industrial Bank Co., Ltd. Shenzhen Houhai Branch**<br>125-131 Heng Yu Bin City Shops,<br>Center Road, Nanshan District,<br>Shenzhen,<br>the PRC |

*Unless otherwise indicated, the information presented in this section was derived from the CIC Report prepared by CIC, which was commissioned by us and was independently prepared primarily as a market research tool intended to reflect estimates of market conditions based on publicly available resources and trade union surveys. References attributed to CIC should not be considered as its own opinion in terms of the value of any security or the advisability of investing in our Group. We believe that the sources of such information and statistics are appropriate and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that the information and statistics included in this report are false or misleading in any material respects, or that any necessary fact has been omitted that would render such information or statistics false or misleading. The information prepared by CIC and set out in this Industry Overview has not been independently verified by us, the Controlling Shareholders, the Sole Sponsor, the* **[REDACTED]**, *the* **[REDACTED]**, *the* **[REDACTED]**, *the* **[REDACTED]** *or any other party involved in the* **[REDACTED]** *or their respective directors, officers, employees, advisers, and agents, and no representation is given as to its accuracy and completeness. Accordingly, such information should not be unduly relied upon.*

## SOURCES OF INFORMATION

We have commissioned CIC, an Independent Third Party, to conduct an analysis of, and to provide a final report on the relevant PRC markets (including the PRC IVD market, the PRC male fertility IVD reagent market, the PRC EBV IVD reagent market, the PRC liver fluke and schistosomiasis IVD reagent market, and the PRC auxiliary reproductive supplies market). The commissioned report, or the CIC Report, has been prepared by CIC independent of our influence. We paid CIC a fee of RMB600,000 for the preparation, and issuance of the CIC Report, which we consider to be in line with market rates, regardless of the results of the CIC Report.

CIC is an investment consulting firm providing services including, among others, independent research, industry consulting, commercial due diligence, and strategic consulting. CIC's independent research was undertaken using both primary and secondary research sources. Primary research involved interviewing industry experts and leading industry participants. Secondary research involved analysing data from various publicly available data sources, including the International Monetary Fund, the National Bureau of Statistics of China, the NHFPC, the CFDA and industry associations.

The market projections were determined based on historical data analysis as well as underlying market drivers. In preparing the CIC Report, CIC has adopted the following key assumptions: (i) the overall social, economic and political environment in the PRC is expected to remain stable during the forecast period; (ii) the PRC's economic and industrial development is likely to maintain a steady growth trend over the next decade; (iii) related key industry drivers are likely to continue driving the growth of the relevant PRC market, in particular, the PRC male fertility IVD reagent market, during the forecast period, such as rising rate of infertility incidences, implementation of the universal two-child policy, widespread acceptance of assisted reproductive treatment, and government support and favourable policies; and (iv) there is no extreme force majeure or industry regulation in which the market may be affected dramatically or fundamentally.

Except as otherwise noted, all the data and forecasts in this section are derived from the CIC Report. Our Directors confirm that, after taking reasonable care, there was no adverse change in any of the market information since the release date of the CIC Report, including any information which may qualify, contradict, or have an impact on the information as disclosed in this section.

## THE PRC IVD MARKET

### Overview

IVD refers to a series of products and services used to diagnose diseases and monitor physiological functions by obtaining clinical status information from testing specimens isolated from human body such as blood, bodily fluids and tissue samples. The PRC IVD market can be divided into different segments by the applied technique, application purpose and product type.

***By Application Technique***

The chart below sets forth the three types of techniques applied to IVD products in the PRC IVD market:

| | Clinical chemistry | Immunodiagnostics | Molecular diagnostics |
|---|---|---|---|
| Principle | Examining biochemical markers using various biochemical reactions | Diagnosing various diseases and determining immune status with the application of immunology theory, techniques and methodologies | Examining various structured proteins, enzymes, antigens, antibodies and immunoactive molecular genetics |
| Instrument | Clinical chemistry analyzer | • Chemiluminescent analyzer<br>• Microplate reader<br>• Fluorescence immunoassay instrument | • Fluorescence polymerase chain reaction detector<br>• DNA sequencer |
| Application | Carbohydrates, lipids, proteins, liver function and renal function | Testing for infertility, pregnancy, and drug, infectious diseases, cancer and blood type identification | Hepatitis, pulmonary infectious diseases and genetic diseases |
| Technique | Techniques are mature and can be manipulated easily at a low cost, which result in a relatively low technical entry barrier | • ELISA which has a relatively low cost and allows for batch operations<br>• CLIA which has a relatively high sensitivity and specificity | Techniques have a relatively high level of sensitivity and accuracy within a short analysis time, which result in a relatively high technical entry barrier |

*Source : CIC*

Immunodiagnostics is the most widely-applied technique in the PRC IVD market in 2017 in terms of medical institution purchase value. ELISA and CLIA are the two mainstream immunoassay techniques. ELISA is a plate-based assay technique which is used to detect substances, including peptides, proteins, antibodies and hormones. When a testing specimen is added to the assay plate, the enzyme on the assay plate reacts and produces a colour. The intensity of colour indicates the amount of antigens or antibodies in the testing specimen. CLIA is an immunoassay technique used to detect and estimate the amount of antigens or antibodies by way of chemical luminescence. When a testing specimen is added to the assay plate, the enzyme on the assay plate reacts and produces light. The intensity of light is proportional to the amount of antigens or antibodies in the testing specimen.

***By Application Purpose***

IVDs are widely applied in the detection and diagnosis of infertility, infectious diseases (including EBV, viral hepatitis and tuberculosis), parasitic diseases, cardiovascular diseases, autoimmune diseases, as well as in drug testing.

***By Product Type***

The PRC IVD market can be divided into segments by product type. IVD products are used primarily for medical examination and blood screening purposes, which consist of the following two categories:

- *IVD reagents*. They are disposable medical devices used to diagnose diseases and physiological functions by obtaining clinical status information from testing specimens isolated from human blood, body fluids and tissue samples.
- *IVD instrument*. They are medical instruments used to carry out IVD tests and normally have a life cycle of over five years.

***By Classes***

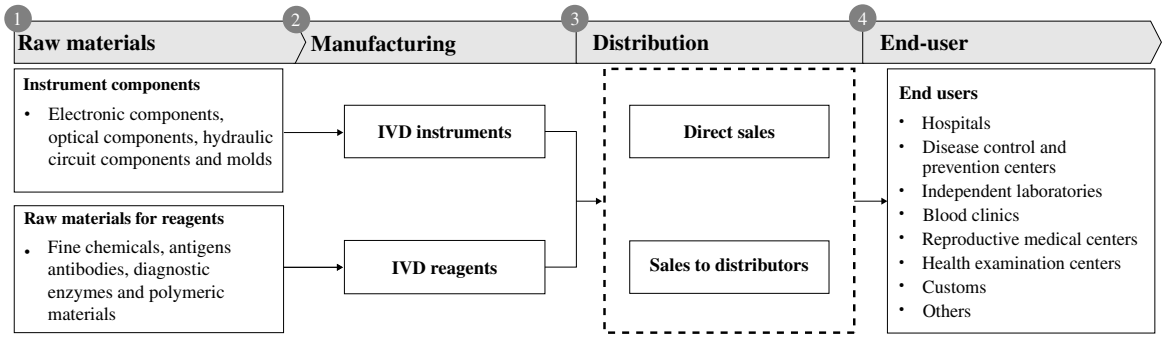
Different classes of medical devices may take varied lengths of time in clinical trials, regulatory evaluation and approval. The chart below sets forth the classification of Class I, Class II and Class III IVD reagents:

| Classification | Definition | Reagent products |
|---|---|---|
| **Class I medical device** | A class of medical devices with lower risks than Class II and III medical device, and its safety and efficacy can be ensured through routine administration | • Microbiological culture medium<br>• Sample disposal products, such as hemolytic agent, diluent and staining reagent |
| **Class II medical device** | A class of medical devices with moderate risks, which shall be strictly controlled and administered, to ensure their safety and efficacy | Reagents used to examine or detect a certain range of substances, including protein, carbohydrate, hormone, enzyme, ester, vitamin, inorganic ion, drug metabolite and autoantibody |
| **Class III medical device** | A class of medical devices with high risks, which shall be strictly controlled and administered through special measures to ensure their safety and efficacy | Reagents used to examine or detect pathogen antigen, antibody, and/or nucleinacid; associated with blood type examination, tissue matching, human gene, anesthesia, targeted therapy, cancer and/or allergen |

*Source : CIC*

**Value Chain of the PRC IVD Industry**

The diagram below sets forth the value chain of the PRC IVD industry.




*Source : CIC*

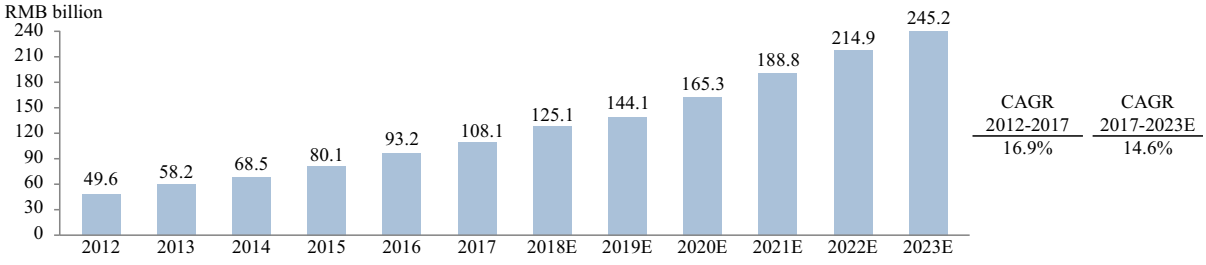
Most IVD companies in the PRC are IVD reagent manufacturers, whereas relatively few of IVD companies in the PRC are IVD instrument manufacturers. There are currently over 1,000 IVD reagent manufacturers in the PRC, most of which are small-sized companies of low-end and mid-end products employing the application techniques of clinical chemistry and immunodiagnostics. Moreover, there are several large-scale domestic suppliers specialised in producing raw materials for the manufacture of IVD reagents in recent years. There remains a gap between imported and domestic antibodies in terms of their purity and stability.

There are two sales models in the PRC IVD market: direct sales and sales to distributors. Under the direct sales model, manufacturers have a good understanding of customers' specific requirements. Under the distribution model, manufacturers can achieve the product coverage at a relatively fast pace with a relatively low level of capital investment. There are currently thousands of distributors in the PRC IVD market, most of which are small- to mid-sized companies. Approximately 80% of the sales volumes in the PRC IVD market attributed to sales to distributors. The end users' purchasing prices are higher than the manufacturers'

ex-factory prices as there are mark-ups during the process of distribution. In addition, imported IVD products are mainly utilised in Class III hospitals, whereas domestic IVD products are mainly utilised in the hospitals at the Class II level and below.

**Market Size and Outlook**

The chart below sets forth the historical and expected market size of the PRC IVD market in terms of medical institution purchase value from 2012 to 2023.




*Source : CIC*

The growing demand in the PRC IVD industry from 2012 to 2017 was mainly attributed to China's ageing population, increasing incidences of chronic and infectious diseases, as well as the gradual implementation of the basic medical insurance system during such period. Numerous IVD products which use different application techniques and in different development stages are currently offered in the PRC IVD market. The application techniques of immunodiagnostics and clinical chemistry have been widely used in the PRC IVD market, and the revenue from the sales of products which use these techniques in aggregate accounted for 48.6% of the total revenue of the PRC IVD market in 2017.

An increasing industry consolidation in the PRC IVD market is expected to emerge. Due to a lack of differentiated products, small-sized companies will find it hard to survive and are likely to exit the market. Large companies with products with competitive costs and well-established sales and distribution networks will gain more market share. Furthermore, influenced by favourable government policies, the penetration rate for domestic products in the PRC IVD market is expected to rise.

The PRC government launched the two-invoice system for disposable medical devices in a number of provinces and municipalities, including Guangdong and Shaanxi, in recent years. The two-invoice system is expected to be further implemented in the next two to three years across provinces and regions in China. Such policy limits not more than two invoices to be issued from medical device manufacturers to hospitals, which is expected to eliminate a great number of small-to-medium sized distributors in the PRC medical device market whose sales and distribution networks mainly cover local markets within different regions of the PRC. The implementation of the two-invoice policy is not expected to have material effect on large-sized distributors which have more extensive sales and distribution network coverage across different regions in the PRC resulting in a low level of dependence on multi-layer downstream distributors. In the meantime, the sales and distribution of the PRC IVD manufacturers whose products are mainly sold directly to hospitals and/or through large-sized distributors are expected to be less affected by the implementation of the two-invoice policy. With the implementation of the two-invoice system, such IVD manufacturers will be benefited in terms of increasing their bargaining power and consolidating their positions in the market. The sales and distribution of the PRC IVD manufacturers which mainly rely on small-to-medium sized distributors for the distribution of their products could be affected as a result of the implementation of the two-invoice policy.

**Key Growth Drivers for the PRC IVD Market**

Key drivers for the PRC IVD market include the following:

- *Ageing population and increasing incidences of chronic diseases.* According to the National Bureau of Statistics of China, with 11.4% of its population aged 65 and above in 2017, China has become an ageing society. The majority of people aged 65 and over are more likely to suffer from chronic diseases, a trend which will directly drive demands in the medical and

healthcare industry, including, among others, the increasing demand for IVD products, as the PRC's population is expected to continuously age at an increasingly rapid pace over the next decade.

- *Technological advancement.* Such advancement improves the overall level of clinical diagnosis and treatment while also meeting the health professionals' needs for new tests and expanding into quantitative testing methods which deliver accurate results. Moreover, new testing methods, such as tumour markers, molecular testing and virus detection, will also spur on potential demand and stimulate growth in the PRC IVD market.

For other growth drivers of rising per capita income and healthcare expenditures, as well as the supportive government policies, which are substantially the same as those of the PRC male fertility IVD reagent market, please refer to the paragraph headed "– The PRC Male Fertility IVD Reagent Market – Key Growth Drivers for the PRC Male Fertility IVD Reagent Market" in this section for more details.

**Entry Barriers of the PRC IVD Market**

The entry barriers of the PRC IVD market are substantially the same as those of the PRC male fertility IVD reagent market, please refer to the paragraph headed "– The PRC Male Fertility IVD Reagent Market – Entry Barriers of the PRC Male Fertility IVD Reagent Market" in this section for further details.

## THE PRC MALE FERTILITY IVD REAGENT MARKET

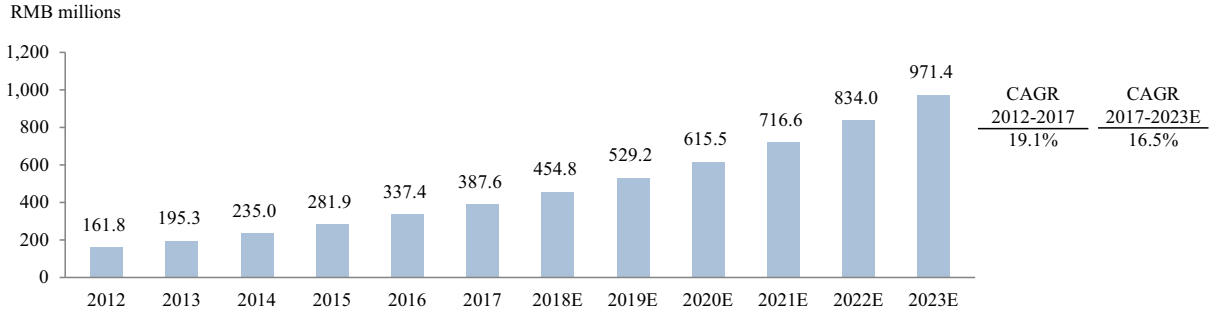
**Overview**

Infertility is a disease or condition of the reproductive system defined as the failure to achieve a clinical pregnancy after 12 months or more of regular sexual intercourses without using any birth control. Both men and women can suffer from infertility. Due to increasing incidences of infertility and a rising number of patients seeking for treatment, the market size of the PRC fertility IVD reagent market (including both male and female fertility IVD reagents) in terms of medical institution purchase value increased rapidly from RMB938.6 million in 2012 to RMB1.8 billion in 2017, representing a CAGR of 13.7%.

The female and male market segments accounted for 78.3% and 21.7% of the PRC fertility IVD reagent market in 2017 respectively. The larger market share of female fertility IVD reagents is due to a higher rate of treatment for female infertility cases and a higher average expenditure on IVD reagents for women, as compared to those of male infertility cases.

**Market Size and Outlook**

The chart below sets forth the historical and expected market size of the PRC male fertility IVD reagent market in terms of medical institution purchase value from 2012 to 2023.




*Source : CIC*

The growing demand for male fertility IVD reagents attributed to the continuous growth in the PRC male fertility IVD market, including increasing incidence rates of infertility, rising expenditures on healthcare, the implementation of a universal two-child policy, favourable policies in support of a hierarchical diagnosis and treatment system, and the increasing coverage for the country's basic medical insurance system.

The PRC male fertility IVD reagent market is expected to grow continuously from 2017 to 2023. In particular, the growth rate is expected to be relatively low from 2017 to 2018 primarily as a result of the implementation of the two-invoice system. The growth rate is expected to be consistent across various regions in China. In particular, the growth rate of the male fertility IVD reagent market for Guangdong province, where the Group generated most of its revenue from during the Track Record Period, is expected to be more than 15% during the period between 2017 and 2023. In order to meet the increasingly diversified demands of customers, as well as with the emergence of advanced technologies, manufacturers of male fertility IVD reagents are likely to produce reagents with a high level of value-added contents and to further improve their products. Furthermore, they are expected to further expand their sales and distribution networks by increasing the coverage of hospitals.

**Key Growth Drivers for the PRC Male Fertility IVD Reagent Market**

Key drivers for the PRC male fertility IVD reagent market include the following:

- *Rising rate of infertility incidences.* Due to late marriage and delayed childbirth, along with impacts from environmental pollution, as well as unhealthy and highly stressful lifestyles, the number of infertile couples who are in the childbearing age in the PRC increased from 42.0 million in 2012 to 49.3 million in 2017, representing a CAGR of 3.3% during such period. As a result of the fast paced and stressful lifestyle, such infertility rate is expected to increase more rapidly during the next decade, which will directly drive demands for male fertility IVD reagents.

- *Widespread acceptance of ART.* With the development of ART techniques, the success rate of ART treatment has risen rapidly in the past several years. Moreover, the number of qualified ART providers in the PRC increased from 356 in 2012 to 451 in 2016, and is expected to grow further in the future due to supports from the PRC government. These developments encourage patients to seek for infertility diagnosis and ART treatments, causing the demand for male fertility IVD reagents to increase.

- *Rising per capita income and healthcare expenditures.* The PRC's economy has grown over the years and is expected to continue to grow in the future. With the continuing development of the PRC economy, rising per capita income and increasing health awareness of the public, Chinese residents are expected to increase discretionary expenditures on healthcare. Since male fertility IVD reagents play an important role during the infertility diagnosis process, demand for male fertility IVD reagents is expected to further increase in future.

- *Government support and favourable policies.* The PRC government has promulgated several favourable policies and regulations to help facilitate the development of IVD industry and biotechnology industry. The male fertility IVD reagent market, as a segment of the overall IVD market, will benefit from rapid expansion of the PRC IVD market. Further, the National Health and Family Planning Commission (國家衛生和計劃生育委員會) proposed to expand the medical insurance coverage for infertility caused by other primary diseases. Moreover, the universal two-child policy has been implemented since January 2016. Since older couples are more likely to encounter fertility problems, the increasing demands for bearing a second child from such couples will encourage significant expansion in the PRC fertility IVD reagent market.

**Entry Barriers of the PRC Male Fertility IVD Reagent Market**

Entry barriers of the PRC male fertility IVD reagent market include the following:

- *Well-established sales and distribution channels.* Building up a well-established sales and distribution network requires a significant amount of initial capital investments. The well-established sales and distribution channels currently enjoyed by the existing market players serve a major entry barrier for those wishing to enter this market.

- *Technology barrier.* The industry is a knowledge-based and technology-driven industry that requires a high level of research and development activities, as well as qualified experts. The technological barrier is a considerable challenge for new entrants in accordance with the industry requirements of advanced technologies and complicated manufacturing processes.

- *Expenses for research and development and regulatory compliance.* Successful recruitment of experienced research and development personnel is a key cost factor. Moreover, before being offered for sale on the market, all new products must have been approved by the CFDA, the Provincial FDAs and/or other local authorities based on medical device classification, for which a considerable amount of time and expenditures are involved. In addition, new manufacture facilities and production lines require initial investments.
- *Licensing requirements for IVD reagent manufacturers.* IVD reagent manufacturers are required to undergo a series of assessments and obtain medical device operation licences from the CFDA, the Provincial FDAs and/or other local authorities based on medical device classification, before they are able to carry out any related business activities. All IVD products are also subject to the CFDA's regulations. Licensing thus becomes a high entry barrier for new entrants.
- *Brand awareness.* Most often, end users prefer IVD reagents with comparatively strong brand recognition, because these products are considered of good quality. Meanwhile, the costs associated with switching from one brand to another are considerable for end users because of strict product testing requirements during procurement process in accordance with the relevant PRC standards and requirements. Procurement of medical devices by public hospitals and medical institutions in China is subject to a procurement process that mainly involves tendering of relevant products by manufacturers and distributors. The winning manufacturers and distributors are included in the supplier lists of public hospitals and medical institutions which may procure the relevant products from these manufacturers and distributors onwards. It usually takes two to three months to complete the main steps of a procurement process. The abovementioned supplier lists are usually reviewed by some of the public hospitals and medical institutions periodically while some other public hospitals and medical institutions do not change the suppliers which they have included in their supplier lists unless a major complaint arises. Therefore, it is also difficult for new entrants to establish brand awareness and attract customers to switch to new product brands.

**Competitive Landscape**

The PRC male fertility IVD reagent market is highly concentrated. There were 38 manufacturers in this market in 2017. All the top five market players are domestic manufacturers, accounting for over 73.5% of the market share in terms of medical institution purchase value in 2017 whereas the remaining 33 manufacturers together accounted for an aggregate market share of 26.5%. We ranked the third in the PRC male fertility IVD reagent market in terms of medical institution purchase value in 2017 with a market share of 14.3%. The table below sets forth the key statistics of the top five players in the PRC male fertility IVD reagent market in 2017.

| Ranking | Company | Market share | Number of male fertility IVD reagents registered with the CFDA or Provincial FDAs |
|---|---|---|---|
| | | *(%)* | |
| 1 | Company A | 17.8% | 21 |
| 2 | Company B | 16.2% | 20 |
| 3 | Shenzhen Huakang | 14.3% | 21 |
| 4 | Company C | 12.9% | 7 |
| 5 | Company D | 12.3% | 18 |

*Source : CIC*

Established in 2009 and based in Shenzhen, Guangdong Province, Company A focuses on semen biochemical and immunological analysis as well as sperm function analysis. In addition to male fertility IVD reagents, it also manufactures female fertility IVD reagents and related devices.

Established in 2002 and based in Nanjing, Jiangsu Province, Company B focuses on manufacture of male fertility detection reagents. The company has been recognised as a High and New Technology Enterprise of Jiangsu Province* (江蘇省高新技術企業). Moreover, it also manufactures IVD devices and female IVD reagents.

Company C was established in 1994 with shares listed on the Shenzhen Stock Exchange* (深圳証券交易所). It offers a diversified product portfolio, with its major focus on interferon and growth hormones. In recent years, this company has developed its own product line of male fertility IVD reagents, with several new reagents approved and marketed in 2016.

Company D was established in 2012 with shares listed on the National Equities Exchange and Quotations* (全國中小企業股份轉讓系統). It manufactures and sells 18 male fertility IVD reagents in the market.

Unhealthy lifestyles and increasing stress level are expected to lead to an increase in infertility rates and hence the number of potential end users, thereby driving customers' demands for new fertility IVD reagents in different segments and geographic regions. Furthermore, more growth opportunities are expected to arise from related market segments, such as auxiliary reproductive supply market due to the increasing demand in ART methods in China.

Great potential in the PRC fertility IVD market may attract large biotechnology companies with considerable resources to enter the market. In addition, existing IVD reagents are expected to be substituted gradually with new products which can provide more convenience and more accurate results to customers.

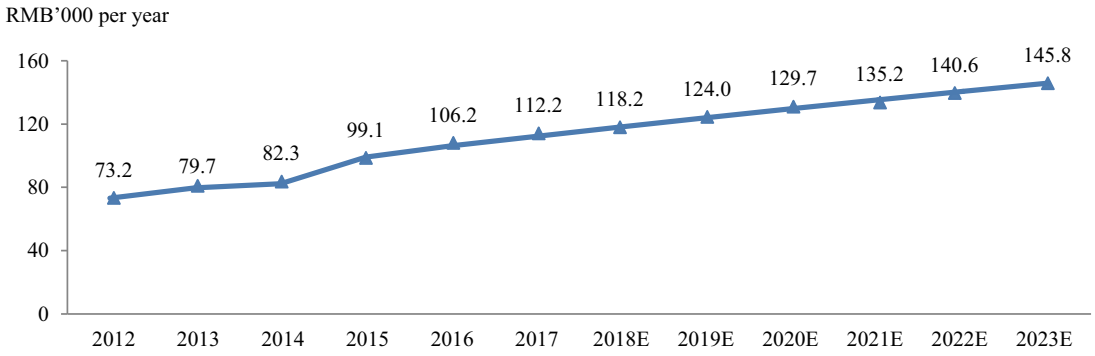
**Competitive Advantages of our Group**

Our Group has the following key competitive advantages:

- *Product portfolio of IVD reagents.* During the Track Record Period, our Group's product offering of 27 IVD reagents comprised 24 male fertility IVD reagents, two parasite antibody detection reagents and one EBV antibody detection reagent. Focusing on the safety and reliability of products, our Group has implemented the quality management system and standard operating procedures in the production process which is conducted in compliance with the PRC-recognised manufacture and quality control standards.
- *Established sales and distribution network.* Our Group operates a sales and distribution network with a broad geographical coverage of 25 provinces, autonomous regions and municipalities in China. As at the Latest Practicable Date, the sales, marketing and distribution functions of our Group were conducted through 21 sales and marketing personnel, and a network of over 100 distributors.
- *Recognised research and development capabilities.* During the Track Record Period, our Group successfully obtained the medical device registration certificates of 13 male fertility IVD reagents with the GDFDA, the largest number of registered products in 2017 out of all industry players. One of our parasite antibody detection reagents is among the only two liver fluke IVD reagents which the CFDA has approved for manufacture and sale in China up to the Latest Practicable Date. Furthermore, our Group has five pipeline products, including three pipeline products at various stages of clinical trials and two pipeline products in the research and development phase.

**Labour Costs and Major Raw Materials**

The main cost components in the PRC male infertility IVD reagent market include labour costs and raw materials costs. The chart below sets forth the change in average salary level in the healthcare manufacture industry in Shenzhen from 2012 to 2023.




*Source : Statistics Bureau of Shenzhen, CIC*

Labour costs of medicine manufacturing industry in Shenzhen increased from RMB73,200 per year in 2012 to RMB112,200 per year in 2017 representing a CAGR of 8.9% during such period, and are expected to continue growing steadily from 2017 to 2023 mainly attributable to a stable economic environment.

Manufacture of male infertility IVD reagents is highly technical and requires a great variety of raw materials and other ingredients. The price ranges of raw materials are primarily determined by multiple factors, including market supply and demand, production costs, as well as transportation costs. Their unit prices vary widely.

The following table sets out the market price ranges of our Group's five major raw materials from 2012 to 2017:

| **Name and description of raw material** | **Market price range** |
|---|---|
| BAPNA (Nα-Benzoyl-L-arginine 4-nitroanilide hydrochloride) with a purity at 98% and a specification of 10g per bottle | RMB2,800 to RMB3,400 |
| Elastase monoclonal antibody, with a specification of 1mg per reagent | RMB5,000 to RMB6,000 |
| 4-Methylumbelliferyl -β-D-lactoside, with a specification of 250mg per bottle | RMB2,000 to RMB3,300 |
| Ficoll-PM400, with a specification of 500g per bottle | RMB20 to RMB24 |
| β-D-Glucosidase, with a specification of 5KU per bottle | RMB3,900 to RMB4,300 |

The market price ranges of our major raw materials were stable during the Track Record Period and are expected to remain stable in the near future.

## THE PRC AUXILIARY REPRODUCTIVE SUPPLY MARKET

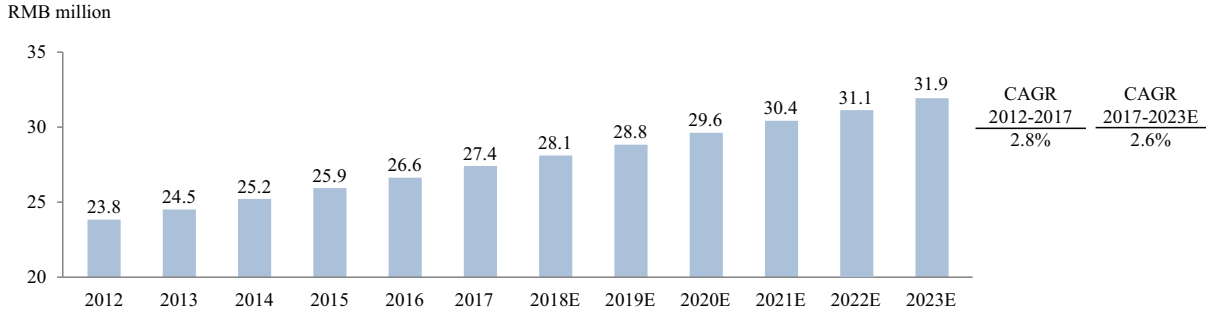
Major categories of auxiliary reproductive supplies in the market include reproductive media and supplements, assisted reproduction needles and assisted reproduction accessories. Such auxiliary reproductive supplies are normally used in conjunction with, among others, fertility IVD reagents, during infertility diagnosis processes. The chart below sets forth the historical and projected market size of the PRC auxiliary reproductive supply market in terms of medical institution purchase value from 2012 to 2023.

*Source : CIC*

The size of the PRC auxiliary reproductive supply market has grown rapidly from 2012 to 2017 mainly attributable to the increasing rates of infertility incidences, rising disposable income of population and rapid development of ART techniques. Given an increasing acceptance level of ART and a rising number of qualified ART providers, demand for auxiliary reproductive supplies is expected to increase in the future from 2017 to 2023, representing a CAGR of 17.6% during such period. The growth rate is expected to be consistent across various regions in China.

## THE PRC EBV IVD REAGENT MARKET

EBV is a member of the herpes virus family and one of the most common human viruses. EBV spreads easily by saliva through kissing, as well as sharing drinks, food, cups, eating utensils and/or toothbrushes. EBV is found predominately in the PRC, partly due to the Chinese dining habit of "food-sharing". The chart below sets forth the historical and projected market size of the PRC EBV IVD reagent market in terms of medical institution purchase value from 2012 to 2023.




*Source : CIC*

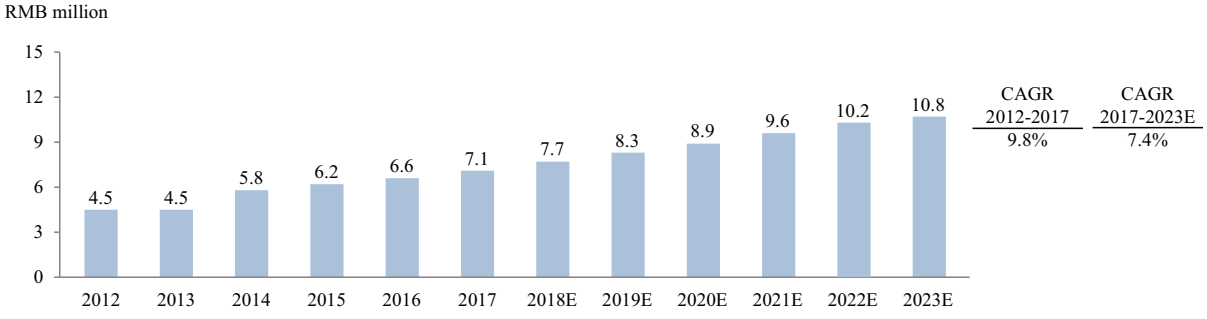
The size of the PRC EBV IVD reagent market increased steadily from 2012 to 2017 as a result of the high frequency of EBV occurrence and increasing demand for general health check. The demand for EBV IVD reagents is expected to grow due to the fact that blood tests for EBV antibodies have been required in the general health check in the areas with high level of EBV incidences in particular, in southern China, including Guangdong, Hainan, Guangxi, Hunan and Fujian provinces.

## THE PRC LIVER FLUKE AND SCHISTOSOMIASIS IVD REAGENT MARKET

Liver fluke diseases and schistosomiasis are two of the major helminthes-related parasitic diseases. Helminths, together with protozoa and ectoparasites, are the three main classes of parasites that can cause diseases in humans.

- *Liver fluke disease, or clonorchiasis.* It is caused by infection with clonorchis sinensis and is one of the major parasitic zoonoses in the PRC, particularly in Guangdong province. Infection of liver fluke occurs through ingestion of raw or undercooked fluke-infested freshwater fish.
- *Schistosomiasis.* It is an acute and chronic disease caused by parasitic worms and is endemic in the provinces of Anhui, Jiangxi, Hunan and Hubei. People are infected during routine agricultural, domestic, occupational and recreational activities.

The chart below sets forth the historical and projected market size of the PRC liver fluke and schistosomiasis IVD reagent market in terms of medical institution purchase value from 2012 to 2023.




*Source : CIC*

The CFDA has approved a total of two liver fluke IVD reagents up to the Latest Practicable Date, one of which was registered by our Group, and the PRC's liver fluke IVD reagent market has grown rapidly since that year. Due to PRC government's efforts in screening liver fluke and schistosomiasis nationwide in general health checks, the market size is expected to further increase to RMB10.8 million in 2023.

## PRC LAWS AND REGULATIONS RELATING TO MEDICAL DEVICES

Our business operations are subject to various laws and regulations of the PRC and extensive supervision and regulation by the PRC government authorities. This section sets out (i) an introduction to the major PRC government authorities with jurisdiction over our current operations and (ii) a summary of the main laws, regulations and policies to which we are subject to.

### General Regulatory Framework for The Medical Device Industry

The medical device industry in the PRC is subject to strict and extensive regulation and supervision by governmental authorities in the PRC. The NDRC of the PRC is responsible for the implementation of policies in the medical device industry, research on the intended industry development plans, supervision of the structural realignments within the industry and implementation of industry management. The NHFPC of the PRC is responsible for the formulation of health reform and development strategies, plans and guidance policies, drafting of provisional laws and regulations relating to medical devices, development of regulations of medical devices, and formulation of relevant standards and technical specifications. Moreover, the CFDA of the PRC is responsible for providing administrative supervision and technological management of research, manufacture, distribution and application of medical devices.

As a medical device manufacturer, our products are subject to regulatory controls governing medical devices, and our enterprise is subject to regulations and supervision of the CFDA and the local food and drug administrative authorities. We are also subject to other PRC laws and regulations applicable to manufacturers in general. We need to obtain production permits, medical device registrations, business permits, and be in compliance with clinical testing standards and reporting procedures in respect of adverse events and unexpected suspected adverse events, in accordance with the CFDA's requirements.

### Classification of Medical Devices

In the PRC, pursuant to the Regulations on the Supervision and Administration of Medical Devices (《醫療器械監督管理條例》), which was last amended by the State Council and came into effect on 4 May 2017, medical devices are classified into three different categories, namely Class I, Class II and Class III, depending on the degree of risk associated with each medical device and the extent of involvement. The class to which a medical device is assigned determines, among other things, whether a manufacturer needs to obtain a production permit and the level of regulatory authority involved in granting such permits. The classification of a medical device also determines the types of medical device registration certificates required and the level of regulatory authority involved in granting the medical device registration certificates.

Those medical devices pose low risk to human body are classified as Class I devices and its safety and effectiveness can be ensured through routine administration. A registration system was originally implemented for Class I medical devices and medical devices registration certificates for such products are regulated and granted by the city-level food and drug administrative authorities where the manufacturer is located. As from 1 June 2014, a filing system was adopted for Class I medical devices and manufacturers are required to file with the city-level food and drug administrative authorities of which the manufacturer is located. Class II medical devices pose medium risk to the human body and its safety and effectiveness shall be strictly controlled. Medical devices registration certificates for Class II medical devices are regulated and

granted by the province-level food and drug administrative authorities where the manufacturer is located, usually through a quality assessment system. Class III medical devices pose high risk to human body, including life-sustaining, life-supporting and implantable medical devices. Medical devices registration certificates for Class III medical devices are regulated and granted by the CFDA under the strictest regulatory control.

Our products are assigned to each of the three categories.

**Registration Certificates of Medical Devices**

Pursuant to the Administrative Measures for the Registration of Medical Devices (《醫療器械註冊管理辦法》) promulgated by the CFDA and took effect on 1 October 2014, Class I medical devices shall be managed by record-filing, while Class II and Class III medical devices shall be managed by registration. Manufacturers engaging in producing of Class I medical devices are required to file with the city-level food and drug administrative authorities of which the manufacturers are located. Moreover, producing Class II medical devices is subject to the inspection and approval and the grant of registration certificates for medical device by the drug administrative authorities under the PRC government at the province-level, autonomous regions, municipalities. Furthermore, producing of Class III medical devices shall be subject to the inspection and approval and the grant of a medical device registration certificate by the CFDA. The medical device registration certificate is valid for five years and the holder of which shall submit documents needed and apply for extension within six months prior to its expiration.

Clinical trials are not necessary for the record-filing of Class I medical devices, but are required for applications for the registration of Class II and Class III medical devices. A medical device that falls under any of the following circumstances may be exempted from clinical trials:

(1) Where the medical device has clear working mechanisms, finalised design and mature manufacturing processes, and will not change the general purposes of the medical devices of the same type that are available on the market and have been used in clinical application for years without recording any serious adverse events;

(2) Where the safety and effectiveness of the medical device can be proved by non-clinical evaluation; or

(3) Where the safety and effectiveness of the medical device can be proved by analysis and evaluation of the data obtained from the clinical trials or clinical application of medical devices of the same type.

The catalogue of medical devices exempted from clinical trials shall be formulated, adjusted and published by the CFDA. Where a product is not included in the catalogue of medical devices exempted from clinical trials, but its safety and effectiveness can be proved by analysis and evaluation of the data obtained from the clinical trials or clinical application of medical devices of the same type, the registration applicant may state relevant situations upon registration application, and submit pertinent supporting materials. Where the clinical trials of a Class III medical device will pose higher risks to human bodies, approval of the CFDA shall be obtained for such clinical trials. The catalogue of Class III medical devices whose clinical trials are subject to examination and approval shall be formulated, adjusted and published by the CFDA.

According to the Administrative Measures for the Medical Devices Registration (《醫療器械註冊管理辦法》), the registration and record-filing of IVD reagents that are managed as medical devices shall be governed by the Administrative Measures for the Registration of IVD Reagents (《體外診斷試劑註冊管理辦法》), which was first promulgated by the CFDA and took effect on 30 July 2014, and amended on 25 January 2017. Similar to the provisions of the Administrative Measures for the Medical Devices Registration (《醫療器械註冊管理辦法》), pursuant to the Administrative Measures for the Registration of IVD Reagents (《體外診斷試劑註冊管理辦法》), Class I IVD reagents are subject to filing, and Class II and Class III IVD reagents are subject to inspection, approval and registration. Application for registration of Class II and Class III IVD reagents shall pass clinical trials. Clinical trials are not required under any of the following circumstances:

(1) IVD reagents with detailed reaction principle, fixed design and mature manufacturing technology, while the same types of IVD reagents in the market have no record of severe adverse events after years of clinical application, and there are no changes on its ordinary usage and the applicant is able to provide evaluation data on the equivalence of the product in the market; and

(2) IVD reagents that are proven to be safe and effective through evaluation of the clinical sample that covers the expected purposes and interference factors.

List of IVD reagents exempted from clinical trials will be formulated, adjusted and published by the CFDA.

**Manufacturing Licence for Medical Device**

Pursuant to the Measures for the Supervision and Administration of Medical Device Production (《醫療器械生產監督管理辦法》) promulgated on 30 July 2014 by the CFDA and last amended and took effect on 17 November 2017, to establish an enterprise producing Class I medical devices, the applicant shall undergo the formalities for the recordation of Class I medical devices at the local food and drug administration at the level of a districted city, and submit the photocopy of the recordation certificate for the produced medical devices held by the enterprise undergoing recordation and relevant materials. To establish an enterprise engaging in the production of Class II or Class III medical devices, the applicant shall file an application for production licensing with the local food and drug administration of the province, autonomous region, or municipality directly under the Central Government. The food and drug administration of a province, autonomous region or municipality directly under the Central Government shall examine the application materials within 30 working days after the date of acceptance, and conduct on-site verification according to the requirements of quality management rules for medical device production. If the prescribed conditions are met, the food and drug administration shall make a written decision to approve licensing in accordance with law, and issue the Medical Device Manufacturing Licence within ten working days; and if the prescribed conditions are not met, the food and drug administration shall make a written disapproval decision, and give an explanation on reasons.

Therefore, a manufacturer will not be able to commence any business operations without submitting a filing or obtaining a Medical Device Manufacturing Licence.

**Permit for Medical Device Operation**

According to Measures on the Supervision and Administration of the Business Operations of Medical Devices (《醫療器械經營監督管理辦法》) promulgated by the CDFA on 30 July 2014 and last amended and became effective on 17 November 2017, the business operations of medical devices shall be subject to classified management according to the degree of risks of medical devices. Enterprises engaging in the operations of Class I medical devices are not required to obtain approval or submit a filing; enterprises engaging in the operation of Class II medical devices are required to file with food and drug administrative authorities at the city level in which the enterprises operate, while enterprises engaging in the operations of Class III medical devices shall apply to the food and drug administrative authorities at the city level in which the enterprises operate to obtain the operation permits.

The term of validity of the Permit for Medical Device Operation is five years. The operating enterprise is required to submit an annual report to the food and drug administrative authorities each year. To maintain the validity of the permit, the operating enterprise is required to submit an extension application six months prior to its expiration date. When reviewing the extension application, the food and drug administrative authorities that granted the permit shall examine and, if necessary, perform a site visit to the enterprise to ensure the full compliance of the Medical Devices Regulations and the Medical Devices Operation Regulations. The food and drug administrative authorities may then decide whether to approve such application prior to the expiration date of such certificate. For further details, please refer to the paragraph headed "– Continuing Regulation of the CFDA or its Relevant Local Counterparts – Renewal and Changes to Contents of Permits and Certificates" in this section.

According to Measures for the Supervision and Administration of Medical Device Operation (《醫療器械經營監督管理辦法》), medical devices manufacturing enterprises engaging in the sale of self-produced products are not required to obtain the Permit for Medical Device Operation.

During the Track Record Period, we had operated medical devices in all three categories. We have obtained all necessary and relevant PRC medical device production and operation permits or records in relation to our business. For the key permits and records relating to our business, please refer to the subsection headed "Business – Legal and Compliance – Licences and Permits" in this document.

During the Track Record Period, Shenzhen Huakang has operated medical devices of the three categories. We have complied with the Medical Devices Regulations and the Medical Devices Operation Regulations, and have obtained all relevant Class I Medical Device Production Record Certificate, Medical Device Manufacturing Enterprise Licence, Class II Medical Device Operating Record Certificate Permit for Medical Devices Operation Enterprises, Class I Medical Device Record Certificate, and Registration Certification for Medical Device. Our Directors shall ensure due submission of subsequent annual reports as well as the extension application of the relevant certificate of registration for medical devices prior to its expiration if needed.

**Good Manufacturing Practice for Medical Apparatus and Instruments**

GMP, which was promulgated on 29 December 2014 and became effective on 1 March 2015, is regarded as the basic principles of the quality control system of medical device manufacturing and is applicable to the entire process of design and development, production, sales and services of medical

devices. Manufacturing enterprises of medical devices shall establish quality control systems in accordance with the features of the products and the GMP requirements, and to maintain effective operations. As a component of the quality control system, manufacturing enterprises shall implement risk management throughout the entire process of production.

**Cold Chain Management Medical Device**

Pursuant to the Guidelines for Cold Chain (Transport & Storage) Management of Medical Device (《醫療器械冷鏈(運輸、貯存)管理指南》), formulated and released by the CFDA and came into effect on 19 September 2016, Cold Chain Management Medical Device refers to medical device requiring refrigeration and frozen management in accordance with its instructions and labels in transportation and storage process.

Medical device manufacturing enterprises and wholesale enterprises shall equip appropriate refrigeration storage (cold storage or freezer) and refrigerated trucks or refrigerators (incubators) and other facilities and equipment according to the variety and scale of production and operation. In order to ensure the temperature control to meet the requirements during transportation, the operator shall select a reasonable means of transport and temperature control based on the product quantity, distance, time, temperature requirements and other relevant factors while transporting Cold Chain Management Medical Device. If entrusting other units to transport Cold Chain Management Medical Device, the carrier's qualifications and capabilities shall be examined and a commissioned transport agreement shall be entered into.

**Centralised Procurement of Medical Devices**

In the PRC, pursuant to the Notice of the MOH on Further Strengthening the Administration of Centralized Procurement of Medical Devices (《衛生部關於進一步加強醫療器械集中採購管理的通知》) promulgated by the MOH (dissolved) and took effect on 21 June 2007, centralized procurement of medical appliances shall be subject to geographic administration. It shall be led by the government and conducted at three levels, namely, the central level, the provincial level and the municipal level, and mainly the provincial level. All non-profit medical institutions founded by the governments at various levels, industries and state-owned enterprises shall participate in centralized procurement of medical appliances. Public invitation of bids shall be the principal method of centralised procurement of medical appliances, and the precise procurement methods should be approved by the centralized procurement authorities. In accordance with relevant laws and regulations, local governments should formulate and improve procedures and implementing measures for centralized procurements of medical devices according to their local situation.

**Two-invoice System**

Pursuant to a notice on implementation (trial) of the two-invoice system in the procurement of pharmaceutical products by public health institutions (the "**Two-invoice System Notice**",《印發〈關於在公立醫療機構藥品採購中推行「兩票制」的實施意見(試行)〉的通知》) promulgated by The Leadership Group of the State Council for Deepening the Medical and Healthcare System Reform, NHFPC, CFDA, NDRC, Ministry of Industry and Information Technology, MOFCOM, SAT, and the State Administration of Traditional Chinese Medicine on 26 December 2016, the two-invoice system means that drug manufacturers issue invoice to circulation enterprises and then circulation enterprises issue invoices to medical institutions. The Two-invoice System Notice is gradually implemented in drug procurement by public medical institutions. Other medical institutions are encouraged to purchase drug under the two-invoice system. Drug manufacturers shall issue invoices in accordance with the relevant provisions required by the Two-invoice

System Notice. The accompanying goods list shall be attached with the sales of drugs according to the requirements of quality control of drug manufacture operation, and the name of purchaser and seller on the invoice shall match the accompanying goods list, payment flow direction and monetary amounts. For drug manufacturers, the competent authorities will strengthen the supervision on the implementation of the two-invoice system through daily supervision, tax inspection and other methods.

**Continuing Regulation of The CFDA or its Relevant Local Counterparts**

We are subject to the continuing supervision by the CFDA and its relevant local counterparts. In the event of significant modification to an approved medical device, its labelling or its manufacturing process, a new pre-market approval or pre-market approval supplement may be required. Our products are subject to, among others, the following regulations:

***Renewal and Changes to Contents of Permits and Certificates***

The term of the validity of the Medical Device Manufacturing Licence is five years. To renew the Medical Device Manufacturing Licence upon its expiry, a manufacturer shall file an application for renewing the validity term of the Medical Device Manufacturing Licence with the original license-issuing authority at least six months before the validity term of the licence expires. In the case of the modification of the enterprise name, legal representative, person in charge of the enterprise, or the domicile, or the literal modification of the production address, the medical device production enterprise shall, within 30 working days as of the modification, undergo modification registration formalities for the Medical Device Production Licence at the original license-issuing authority. In the case of any modification of the recordation certificate for the production of Class I medical devices, modification recordation shall be conducted.

The Medical Device Business Operations Permit shall be valid for five years. Where its Medical Device Business Operations Permit needs to be renewed upon the expiry thereof, the relevant enterprise engaging in the business operations of medical devices shall, within six months prior to the expiry date, submit an application for renewal of the Medical Device Business Operations Permit to the original permit-issuing department. Changes of the matters specified in the Medical Device Business Operations Permit shall be divided into changes of licensing matters and changes of registration matters. Changes of licensing matters include changes to business premises, ways of business operations, business scope and storage warehouse addresses. Changes of registration matters refer to the changes of matters other than the above-mentioned ones. In the event of changes of licensing matters, the holder of the Medical Device Business Operations Permit shall apply to the original permit-issuing department for change of the Medical Device Business Operations Permit. In the event of changes of registration matters, an enterprise engaging in the business operations of medical devices shall promptly go through the formalities for change with the relevant food and drug administration at the level of cities with districts.

The Registration Certificate of Medical Device shall be valid for five years. In the event of changes to the contents specified in the Registration Certificate of Medical Device of a registered Class II and Class III medical device and its appendix, the registrant concerned shall apply to the original registration department for change of registration, and submit application materials in accordance with relevant requirements.

Failure to renew the relevant permit and/or certificate on time may result in fines being imposed by the CFDA and its relevant local counterparts or revocation of the permit and/or the certificate.

***Other Continuing Regulations***

GMP requires manufacturers to create, implement and follow certain design, testing, control, documentation and other quality assurance procedures.

The Measures for Unannounced Inspection on Drugs and Medical Devices (《藥品醫療器械飛行檢查辦法》) adopted by CFDA on 18 May 2015 and took effect on 1 September 2015, provides the regime of unannounced supervision and inspection by the food and drug administrative departments over the R&D, production, operation, use and other aspects of drugs and medical devices. In accordance with the results of unannounced inspection, the food and drug administrative departments may take risk control measures such as correction within prescribed time limit, letters of warning, appointed interview with the inspected entity, supervision on product recall, withdrawal or revocation of relevant qualification certificates and suspension of research and development, production, sales and use.

Pursuant to Medical Device Recall Management Measures (《醫療器械召回管理辦法》) which was issued by the CFDA on 25 January 2017 and came into effect on 1 May 2017, manufacturers of medical devices shall immediately decide to make a voluntary recall when a defective product was found in defect investigation.

The CFDA and its relevant local counterparts impose general prohibition against promoting products for unapproved uses.

We are also subject to inspection and market surveillance by the CDFA and its relevant local counterparts to determine compliance with regulatory requirements. If the CFDA and its relevant local counterparts decide to enforce its regulations and rules, the agency may institute a wide variety of enforcement actions such as:

(1) fines, injunctions and civil penalties;

(2) recall or seizure of our products;

(3) the imposition of operating restrictions, partial suspension or complete shutdown of production;

(4) revocation of our existing registration, approvals and permits; and

(5) criminal prosecution.

**OTHER REGULATIONS**

Laws regulating medical device manufactures and distributors covers a broad array of subjects. We must comply with numerous additional state and local laws relating to matters such as product liability, safe working conditions, manufacturing practices, environment protection and taxation.

## Product Liability and Consumer Protection

The Product Quality Law of the PRC (《中華人民共和國產品質量法》) which was promulgated on 22 February 1993 and last amended and came into effect on 27 August 2009 regulates all production and operation behaviours in the PRC and manufacturers and sellers are responsible for the quality of products produced or sold by them.

The PRC Tort Law (《中華人民共和國侵權責任法》) was enacted by the Standing Committee of the National People's Congress (the "**SCNPC**") on 26 December 2009 and came into effect from 1 July 2010. Pursuant to such law, manufacturers shall be liable for damages caused by the defects of their products. If the seller fails to identify the manufacturer or the supplier of the defective products, the seller shall assume tort liability. Where the defective product endangers personal or property safety, the victim can claim for compensations from either the seller or the manufacturer. If the seller has paid compensation for the defective products when, in fact, the manufacturer should be responsible for the defects, the seller shall be entitled to claim indemnity from the manufacturer. If the defect of the products is caused by the fault of a third party, such as a carrier or warehouseman, the manufacturer or seller of the product that have paid the compensation shall be entitled to claim indemnity from the third party. Where any defect of a product is found after the product is put into circulation, the manufacturer or seller shall take remedial measures including but not limited to issuing warnings and recalling in a timely manner. If any damage is caused due to the untimeliness or ineffectiveness of the remedial measure, the manufacturer and seller shall bear tortious liability. Where a manufacturer or seller knowingly continues to produce or sell defective products, and the defective products cause death or any serious damage to the health of another person, the victim shall be entitled to claim punitive compensation from the manufacturer or the seller.

The PRC Law on the Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》), which was promulgated on 31 October 1993, amended on 25 October 2013 and came into effect on 15 March 2014, aims to protect consumers' rights. All business operators must comply with such law when they manufacture or sell goods and/or provide services to customers. Consumers whose legitimate rights and interests are infringed upon purchasing and using commodities and/or in receiving services may demand compensation from the sellers. Consumers or other victims suffering from personal injuries or property damage resulting from defects of commodities may demand compensation from either the sellers or the manufacturers. If the liability is on the manufacturers, the sellers shall, after paying the compensation, be able to recover the compensation from the manufacturers. If the liability is on the sellers, the manufacturers shall, after paying the compensation, be able to recover the compensation from the sellers. Where a business operator violates the PRC Law, it may be subject to a fine, an order to cease production or a revocation of licences. Business operators that infringe the legitimate rights and interests of consumers shall be investigated for criminal liability in accordance with the law.

## Laws and Regulations Relating to Environmental Protection

### *Environmental Protection Law*

Pursuant to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), which was promulgated on 26 December 1989, amended on 24 April 2014 and came into effect on 1 January 2015, the Environmental Protection Administrative Department of the State Council is empowered to formulate the environmental quality standards and pollutant discharge standards of the PRC at national level. Public

institutions and other producers and business operators that discharge pollutants shall take measures to prevent and control the environmental pollution and harm caused by waste gas, waste water, waste, residues, medical waste, dust, malodorous gases, radioactive substances, noise, vibration, optical radiation and electromagnetic radiation, etc. generated during production, construction or other activities. Without the environmental impact assessment that subject to the law, production activities shall not be implemented. Therefore, no production would be allowed in absence of admission from authorities or institutions.

***Solid Waste Pollution***

Pursuant to the PRC Law on the Prevention and Control of Environmental Pollution Caused by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), which was promulgated on 30 October 1995, and last revised and came into effect on 7 November 2016, producers, sellers, importers and users are responsible for the prevention and control of solid waste pollution, and should take measures to prevent or reduce the environmental pollution of solid waste. An entity discharging hazardous waste shall be in accordance with the provisions of the state regarding the types, production quantity, storage, processing of the waste, and other related materials by the environmental protection department of the local people's governments at or above the county level. Entities engaged in the collection, storage and disposal of hazardous wastes shall be subject to the administrative departments of environmental protection of the people's governments. It is forbidden to provide or entrust hazardous waste to an entity without the licenses.

***Water Pollution***

Pursuant to the PRC Law on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), which was promulgated on 11 May 1984 and became effective on 1 November 1984, last revised on 27 June 2017 and came into effect on 1 January 2018, the state adopt a system of pollution discharge licenses. In respect to the water discharge of industrial wastewater or medical wastewater of enterprises and institutions, pollution discharge licenses are inevitable. In another word, any person who discharges wastewater and sewage shall obtain the pollutant discharge licenses. Environmental impact assessment shall be committed on a regular basis and be carried out in accordance with the law, regulations, and the provisions of the environmental protection administrative department under the State Council.

***Air Pollution***

Pursuant to the PRC Law on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), which was promulgated on 5 September 1987, last revised and came into effect on 26 October 2018, any business entities that may lead to pollution shall carry out the environmental impact assessment, and such assessment document issued shall be in accordance with the law. Pollutants discharged into the atmosphere should meet the emission standards for atmospheric pollutants and comply with the total emission control requirements of atmospheric pollutants. Specific measures and implementation steps of pollutant discharge permit shall be determined by the state council. Measures are not limited to closing business, order to stop production, etc.

***Construction Projects***

Pursuant to the Law on Appraisal of Environment Impacts of the PRC (《中華人民共和國環境影響評價法》), which was promulgated on 28 October 2002, amended on 2 July 2016 and came into effect on 1 September 2016, on the basis of the extent of effects exerted on the environment by construction projects, a construction entity shall prepare a construction project environmental impact report, an environmental impact report form or an environmental impact registration form on the environmental impacts of the construction projects, which shall be approved by or filed in the competent environmental protection administrative department. In the course of the construction project, the construction entity shall carry out the environmental protection measures as proposed by the competent environmental protection administration departments.

Pursuant to the Management Regulations of Environmental Protection of Construction Project (《建設項目環境保護管理條例》), which was promulgated by the State Council and became effective on 29 November 1998, last revised on 16 July 2017 and came into effect on 1 October 2017, the PRC has implemented a system for the evaluation of the environmental impacts of a construction project. A construction entity shall, upon or prior to the commencement of construction or, during the phase of feasibility study, submit a construction project environmental impact report, an environmental impact report form or an environmental impact registration form to the competent environmental protection administrative department for approval. Furthermore, the construction entity shall, during a certain construction stage or upon completion of the construction project, file an application with the environmental protection administrative department that examined and approved the said construction project for inspection and approval.

Pursuant to the Administration Regulations on Environmental Protection Inspection and Approval of Construction Projects (《建設項目竣工環境保護驗收管理辦法》), which was promulgated by the State Environmental Protection Administration on 27 December 2001 and amended on 22 December 2010 (the latest revision became effective on 22 December 2010), upon completion of construction projects, the environmental protection administrative department shall assess whether the projects meet the requirements of the Administration Regulations on Environmental Protection Inspection and Approval of Construction Projects. Upon completion of the principal parts of the construction projects, their supporting environmental protection facilities shall be simultaneously put into operation or use. During the process of pilot operation, the supporting environmental protection facilities shall be put into pilot operation simultaneously as well.

**Labour and Social Protection**

***Labour***

According to the Labour Law of the PRC (《中華人民共和國勞動法》), which became effective on 1 January 1995 and was amended in 2009, and the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) (the "**Labour Contract Law**"), which became effective on 29 June 2007 and amended on 28 December 2012, employers and employees shall enter into labour contracts to establish their employment relationship and the labour contracts shall include the following items: term of the labour contract, scope of work and place of work, working hours, labour compensation, social insurance, labour protection and other

issues required by laws and regulations to be included in the labour contract. Apart from the mandatory terms mentioned above, an employer and an employee may agree to include other matters in the labour contract such as probation period, training, confidentiality, supplementary insurance and welfare, etc.

Besides, an employer shall develop and improve its labour safety and health systems, stringently implement national protocols and standards on labour safety and health, conduct labour safety and health education for workers, guard against labour accidents and reduce occupational hazards. Labour safety and health facilities must comply with relevant national standards. An employer must provide workers with the necessary labour protection articles that comply with labour safety and health conditions stipulated under national regulations, as well as provide regular health examinations for workers that are engaged in operations with occupational hazards. Labourers engaged in special operations shall have received specialised training and obtained qualifications for special operations. An employer shall develop a vocational training system. Vocational training funds shall be set aside and used in accordance with national regulations and vocational training for workers shall be carried out systematically based on the actual conditions of the company.

***Social Security and Housing Funds***

According to the Social Insurance Law of the PRC (中華人民共和國社會保險法) promulgated by the National People's Congress of the PRC on 28 October 2010 and became effective on 1 July 2011, together with other relevant laws and regulations, the PRC establishes a social insurance system including basic pension insurance, basic medical insurance, occupational injury insurance, unemployment insurance and maternity insurance. Any employer shall register with the local social insurance agency within 30 days after its establishment and shall register for the employee with the local social insurance agency within 30 days after the date of hiring. An employer shall declare and make social insurance contributions in full and on time. The occupational injury insurance and maternity insurance shall be only paid by employers while the contributions of basic pension insurance, medical insurance and unemployment insurance shall be paid by both employers and employees.

The Regulations on the Administration of Housing Provident Fund (《住房公積金管理條例》), which was promulgated by the State Council and came into effective on 3 April 1999, and was amended on 24 March 2002, stipulate that housing provident fund contributions paid by an individual employee and housing provident fund contributions paid by his or her employer all belong to the individual employee. An employer who fails to make contributions in a timely manner may be fined and be ordered to make up for the outstanding contributions.

Except for those which are set forth in the subsection headed "Businesses – Non-compliance Incidents" in this document, as of the Latest Practicable Date, we had complied with all statutory social insurance and housing fund obligations applicable to us in all material respects under the PRC laws.

***Production Safety***

Pursuant to the Production Safety Law of the PRC (《中華人民共和國安全生產法》) which was promulgated on 29 June 2002, amended on 31 August 2014 and came into effect on 1 December 2014, enterprises and institutions shall be equipped with the conditions for safe production as provided in the Production Safety Law of the PRC and other relevant laws, administrative regulations, national standards

and industrial standards, and shall promote standardisation on production safety. Any entity that is not equipped with such conditions is not allowed to engage in production and business operation activities. Enterprises and institutions shall educate their employees with production safety information. The labour union shall conduct supervision on work safety production according to the laws. In addition, enterprises and institutions shall provide personal protective equipment that attains national standards or industrial standards to the employees, and supervise and educate them to use such equipment.

**Laws and Regulations Relating to Registration for Import and Export of Goods**

Pursuant to the Customs Law of the PRC (《中華人民共和國海關法》), which was promulgated by the SCNPC on 22 January 1987 with the last amendment effective on 5 November 2017, unless otherwise provided for, the declaration of import or export of goods and the payment of duties may be made by the consignees or consigners themselves, and such formalities may also be completed by their entrusted customs brokers that are registered with the permission of the competent customs. The consignees and consigners for import or export of goods and the customs brokers engaged in customs declaration shall register with the competent customs in accordance with the laws. The declaration and payment of duties of inward and outward articles may be made by the owners of the articles themselves or by the persons they have entrusted with the work.

Pursuant to the Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》), promulgated by the SCNPC on 12 May 1994 with the last amendment effective on 7 November 2016, foreign trade operators engaged in the import and export of goods or technology shall go through the record-filing registration formalities with the competent department of foreign trade under the State Council or its entrusted institutions, except for those that do not need to go through the record-filing registration formalities as prescribed by laws, administrative regulations and the provisions of the competent department of foreign trade under the State Council. The specific measures for record-filing registration shall be formulated by the competent department of foreign trade under the State Council. Where a foreign trade operator fails to go through the record-filing registration formalities, the customs shall refuse to handle the formalities for declaration and clearance of goods imported or exported by the operator.

**Intellectual Property Rights**

Pursuant to the Patent Law of the PRC (《中華人民共和國專利法》) promulgated on 12 March 1984 with the last amendment effective on 1 October 2009, patent protection is divided into three categories, namely, invention patent, utility patent and design patent. Invention patents are intellectual property rights in relation to new technology of a product, method, or its improvement. Utility patents are intellectual property rights in relation to new technology to increase the utility of product's shape, structure or combination. Design patents are intellectual property rights in relation to new design of a product's shape, pattern, or the combination of them, and the combination of colour, shape and pattern with aesthetic and industrial application value. Invention patents are valid for twenty years from the date of application, while design patents and utility patents are valid for ten years from the date of application. Once an invention patent or a utility patent is granted, unless otherwise permitted by law, no individual or entity is permitted to engage, for the purposes of production and business operation, in the manufacture, use, offer to sell, sale, or import of the patented products or otherwise engage in applying the patented method, use, offer to sell, sale, or import of the products directly derived from applying the patented method, without consent of the patent holder. Upon the granting of a design patent, no individual or entity is permitted to engage, for the purposes

of production and business operation, in the manufacture, offer to sell, sale, or import of the patented products. Where the infringement of patent is determined, the infringer shall, in accordance with the regulations, undertake to cease the infringement, take remedial action, pay damages, and etc.

Pursuant to the PRC Trademark Law (《中華人民共和國商標法》) which was promulgated on 23 August 1982 and amended on 22 February 1993, 27 October 2001, 30 August 2013, and the last amended version which came into effect on 1 May 2014, and Regulation for the Implementation of the PRC Trademark Law (《中華人民共和國商標法實施條例》) which was promulgated on 3 August 2002 and was amended on 29 April 2014 and came into effect on 1 May 2014, the term of validity of a registered trademark is ten years, calculated from the date of approval of the registration. If a registrant needs to continue to use the registered trademark after the term of validity, an application for renewal of registration shall be made within six months before the expiration. Violation of the Trademark Law of the PRC may result in the imposition of fines, confiscation and destruction of the infringing commodities.

**Taxation**

***Enterprise Income Tax***

According to the PRC EIT Law which was promulgated on 16 March 2007, amended and came into effect on 24 February 2017, and the Implementation Rules to the Enterprise Income Tax Law (《中華人民共和國企業所得税法實施條例》) (the "**Implementation Rules**"), which was promulgated on 6 December 2007 and came into effect on 1 January 2008, the income tax for both domestic and foreign-invested enterprises is at the same rate of 25%. Pursuant to the EIT Law and Implementation Rules, enterprises are considered as resident enterprises if they are established under the laws of foreign countries or regions whose "de facto management bodies" are located in the PRC, and will generally be subject to enterprise income tax at the rate of 25% of their global income. Non-resident enterprises refer to enterprises which are established according to the law of a foreign country (region) and whose actual management body is not in the PRC, but which have established institutions or premises in the PRC, or which have not established institutions or premises in the PRC but have income earned in the PRC. While non-resident enterprises that have set up institutions or premises in the PRC shall pay enterprise income tax, in relation to the income originating from the PRC and obtained by their institutions or establishments, and on the income incurred outside the PRC but associated with such institutions and enterprises, non-resident enterprises which have not established institutions or premises in the PRC, or which have established institutions or premises in the PRC but whose income have no association with such institutions or premises shall pay enterprise income tax on their income earned from the PRC. The Implementation Rules defines "de facto management bodies" as "establishments that carry out substantial and overall management and control over production and operations, personnel, accounting, properties, and etc." of the enterprise. With respect to the income earned from inside China by a non-resident enterprise, it shall calculate the amount of taxable income thereon according to the following methods: (1) for income from equity investment, such as dividends and bonuses, interest, rents or royalties, the total income shall be the taxable income; (2) for income from transfer of property, the balance of the total income after deducting the net value of such property shall be the taxable income; and (3) for other income, the taxable income shall be calculated with reference to the methods specified in item (1) and item (2) above.

***Dividend Distribution***

According to PRC EIT Law, non-resident enterprises, which have not set up institutions or establishments in the PRC or institutions or establishments are set up but there is no actual relationship with the income obtained by the institutions or establishments, shall pay enterprise income tax in relation to the income originating from China at the tax rate of 20%. The Implementation Rules reduced the rate from 20% to 10%.

Pursuant to the Notice on the Several Issues relating to the Implementation of Dividend Clauses in Tax Treaties (《國家税務總局關於執行税收協定股息條款有關問題的通知》), which was promulgated by the SAT and came into effect on 20 February 2009,tax resident of the other contracting party intending to enjoy the tax treatment prescribed in a tax treaty shall satisfy the following conditions simultaneously: (i) the tax resident of the other contracting party who obtains dividends shall be limited to a company in accordance with the tax treaty; (ii) both the proportion of the total owner's equity and the proportion of the voting shares in the Chinese resident company directly owned by the tax resident of the other contracting party satisfy the relevant provisions; and (iii) the proportion of the capitals of the Chinese resident company directly owned by the tax resident of the other contracting party shall, at any time within the consecutive 12 months before obtaining dividends, satisfy the provisions on the proportion prescribed in the tax treaty.

Pursuant to the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (《非居民納税人享受税收協定待遇管理辦法》), which was promulgated by the SAT on 27 August 2015 and came into effect on 1 November 2015, last revised and took effect on 15 June 2018 any non-resident taxpayer fulfilling conditions for enjoying the convention treatment may be entitled to the convention treatment itself/himself when filing a tax return or making a withholding declaration through a withholding agent, subject to the subsequent administration by the tax authorities.

***Value-added Tax***

The Interim Regulations of the PRC on Value-added Tax (《中華人民共和國增值税暫行條例》), which was promulgated by the State Council on 13 December 1993 with the last amendment effective on 19 November 2017, and the Detailed Implementing Rules of the Interim Regulations of the PRC on Value-added Tax (《中華人民共和國增值税暫行條例實施細則》), which was promulgated by the Ministry of Finance (the "**MOF**") on 25 December 1993, last amended on 28 October 2011 and became effective on 1 November 2011, set out that all organizations and individuals engaged in sale of goods or processing, repair and assembly services, sale of services, intangible assets, immovables and importation of goods within the territory of the PRC shall be the taxpayers of the value-added tax (the "**VAT**") and shall pay VAT in accordance with these regulations. A tax rate of 17% shall be levied on taxpayers engaging in sale of goods, services, lease of tangible movables or importation of goods unless otherwise stipulated in theses regulation; The tax applicable rate for taxpayers engaging in sale of transportation, postal, basic telecommunications, construction, lease of immovables, sale of immovable, transfer of land use rights, sale or importation of the specified goods shall be 11%; and the applicable rate for the export of goods by taxpayers shall be nil, unless otherwise stipulated by the State Council.

***Enterprise Income Tax on Indirect Transfer of Non-Resident Enterprises***

Pursuant to the Announcement of the SAT on Several Issues Concerning the Enterprise Income Tax on the Indirect Transfers of Properties by Non-Resident Enterprises (《國家税務總局關於非居民企業間接轉讓財產企業所得税若干問題的公告》) (the "**Circular 7**"), which was promulgated by the SAT and became effective on 3 February 2015, and last amended and took effect on 29 December 2017, where a non-resident enterprise indirectly transfers equity interests or other assets of a PRC resident enterprise by implementing arrangements that are not for bona fide commercial purposes to avoid its obligation to pay EIT in accordance with Article 47 of the PRC EIT Law, be recognised by the competent PRC tax authorities as a direct transfer of equity interests or other assets by the PRC resident enterprise.

According to the Circular 7, the indirect transfer of PRC taxable property shall be regarded as having a bona fide commercial purpose if all the following conditions are met: (i) the parties in the transaction are in any of the following equity relationships: (a) the transferor holds, directly or indirectly, more than 80% of the transferee's equity; (b) the transferee holds, directly or indirectly, more than 80% of the transferor's equity; or (c) more than 80% of the equity of the transferee and the transferor is held, directly or indirectly, by the same party; (ii) the amount of EIT payable on any subsequent indirect equity transfer will not be less than that payable on the same or similar indirect equity transfer had the subject indirect equity transfer not taken place; and (iii) the transferee pays the entire amount of consideration with its own equity or equity of an enterprise with which it has a controlling shareholding relationship (excluding equity of a listed company).

**Legal Supervision Over The Foreign Investment in The PRC**

***WFOE Law of the PRC and its Implementation Measures***

The WFOE Law of the PRC (《中華人民共和國外資企業法》), which was promulgated on 12 April 1986 by the National People's Congress and amended on 31 October 2000 and 3 September 2016 by the SCNPC (the latest revision became effective on 1 October 2016), and the Regulations for the Implementation of the WFOE Law of the PRC (《中華人民共和國外資企業法實施細則》), which was promulgated by the former Ministry of Foreign Economic Relations and Trade on 12 December 1990, last amended by the State Council on 19 February 2014 and became effective on 1 March 2014, stipulate that foreign enterprises and other economic organisations or individuals may establish WFOE in the PRC. The application for the establishment of a WFOE is subject to the filing administration or examination and approval by the competent commercial departments.

***The Catalogue of Industries for Guiding Foreign Investment and Provisions on Guiding the Orientation of Foreign Investment***

The Catalogue of Industries for Guiding Foreign Investment (《外商投資產業指導目錄》) (the "**Foreign Investment Catalogue**"), which was jointly promulgated by the NDRC and the MOFCOM on 24 December 2011 and last amended on 28 June 2018 and came into effective on 28 July 2018 by the NDRC and the MOFCOM, and the Provisions on Guiding the Orientation of Foreign Investment (《指導外商投資方向規定》) was promulgated by the State Council on 11 February 2002 and came into effect on 1 April 2002, classifying all foreign investment projects into four categories: (1) permitted projects, (2) encouraged projects, (3) restricted projects and (4) prohibited projects. The medical device industry falls within the

category of industries in which foreign investment is permitted. Foreign investors may participate in the manufacture and operation of medical device within the territory of the PRC by means of the establishment of a joint venture or a wholly foreign owned enterprise.

Regulations of the PRC on Foreign Exchange Administration (《中華人民共和國外匯管理條例》), which was promulgated by the State Council on 29 January 1996, last amended and came into effect on 5 August 2008, set out that foreign exchange receipts of domestic institutions or individuals may be transferred to China or deposited abroad; the conditions for transfer to China or overseas deposit, time limit, etc., shall be specified by the foreign exchange control department of the State Council according to the international receipts and payments status and requirements of foreign exchange control. Foreign exchange receipts for current account transactions may be retained or sold to financial institutions engaged in the settlement or sale of foreign exchange according to relevant provisions of the State. Any foreign exchange payment for capital account transactions shall be made, in accordance with provisions of the foreign exchange administrative department of the State Council on administration of payment and purchase of foreign exchange, with their own foreign exchange or with foreign exchange purchased from financial institutions engaged in settlement or sales of foreign exchange, by presenting valid documents. If the State specifies that the payment is subject to the approval of the foreign exchange control organs, the approval formalities shall be completed prior to payment of foreign exchange. Domestic institutions or individuals that make direct investment abroad or are engaged in the distribution or deal of valuable securities or derivative products overseas shall go through the formalities for registration in accordance with the SAFE regulations. The said institutions or individuals shall go through the formalities for examination and approval or record-filing prior to foreign exchange registration, if they shall be subject to the approval of or record-filing with the relevant competent departments in advance as required by the State.

The Regulations on Administration of Settlement, Sale and Payment in Foreign Exchange (《結匯、售匯及付匯管理規定》), which was promulgated by the People's Bank of China on 20 June 1996, and became effective on 1 July 1996, provide that foreign exchange revenue under the current account of foreign-invested enterprises may be retained to the fullest extent specified by the foreign exchange bureau. The portion in excess of such amount shall be sold to a designated foreign exchange bank or through a foreign exchange swap centre. With respect to the outbound remittance of profits or bonuses of foreign investors in foreign-invested enterprises, after the payment of tax according to law, payment shall be made from their foreign exchange accounts, or conversion and payment effected at designated foreign exchange banks, on the strength of the written resolutions of the board of directors on profit distribution. With respect to the Renminbi wages and other legitimate earnings of Chinese, Hong Kong, Macao and Taiwanese employed as staff members and workers in foreign-invested enterprises, conversion and payment shall, after the payment of tax according to law, be effected at designated foreign exchange banks on the strength of certificates.

Pursuant to Notice of the State Administration of Foreign Exchange on the Administration of Foreign Exchange Involved in Overseas Investment, Financing and Return on Investment Conducted by Residents in China via Special-Purpose Companies (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the "**Circular No. 37**") promulgated by the SAFE and became effective on 4 July 2014, a "special purpose company" shall refer to an overseas enterprise directly established or indirectly controlled by a domestic resident (including domestic institution and domestic individual resident) with their legitimate holdings of the assets or interests in domestic enterprises, or their legitimate holdings of assets or interest. Prior to making contribution to a special purpose company with legitimate holdings of domestic or overseas assets or interests, a domestic resident shall apply to the SAFE

or its branches (hereinafter referred to as the "**Foreign Exchange Bureau**") for foreign exchange registration of overseas investment. A domestic resident who makes contribution with legitimate holdings of domestic assets or interests shall apply for registration to the Foreign Exchange Bureau at its place of registration or the Foreign Exchange Bureau at the locus of the assets or interests of the relevant domestic enterprise. A domestic resident who makes contribution with legitimate holdings of overseas assets or interests shall apply for registration to the Foreign Exchange Bureau at its place of registration or household register.

According to Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Policies of the Foreign Exchange Administration Applicable to Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), which was promulgated by the SAFE on 13 February 2015 and became effective on 1 June 2015, two administrative examination and approval items, i.e. verification and approval of foreign exchange registration under domestic direct investment, and verification and approval of foreign exchange registration under overseas direct investment, shall be abolished. Instead, banks shall, in accordance with this Notice and the Operating Guidelines for Foreign Exchange Services under Direct Investment, directly examine and handle foreign exchange registration under domestic direct investment and foreign exchange registration under overseas direct investment. Foreign Exchange Bureau shall conduct indirect regulation of Foreign Exchange Registration of Direct Investment via banks. Overseas enterprises established or controlled by domestic investors are not required to go through foreign exchange record-filing procedures if they re-invest overseas to establish or control new enterprises overseas.

Pursuant to the Notice of the State Administration of Foreign Exchange on Reforming the Administrative Approach Regarding the Settlement of Foreign Exchange Capitals of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》), which was promulgated by the SAFE on 30 March 2015 and became effective on 1 June 2015, and the Notice of the State Administration of Foreign Exchange and Reforming and Standardising the Administrative Provisions on Capital Account Foreign Exchange Settlement (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》), which was promulgated and became effective on 9 June 2016, a domestic institution shall use foreign exchange earnings under capital account within its business scope and in a truthful manner for proprietary purposes. A domestic institution may use its foreign exchange earnings under capital account and the RMB funds obtained from the settlement thereof for current account expenditure within the scope of its business, as well as for capital account expenditure permitted by laws and regulations. A domestic institution shall comply with the following provisions in using its foreign exchange earnings under capital account and the RMB funds obtained from the settlement thereof:

(1) It shall not, directly or indirectly, use the foregoing funds for expenditure beyond its business scope or expenditure prohibited by State laws and regulations;

(2) Unless otherwise expressly prescribed, it shall not, directly or indirectly, use the foregoing funds for securities investment or investment and wealth management products other than principal-protected products issued by banks;

(3) It shall not use the foregoing funds for disbursing loans to non-affiliated enterprises, except under circumstances expressly permitted by its business scope; and

(4) It shall not use the foregoing funds for constructing or purchasing real estate not for self-use (unless it is a real estate enterprise).

**OTHER REGIONS**

Most major markets have different levels of regulatory requirements for medical devices. Modifications to the approved products require a new regulatory submission in all major markets. The regulatory requirements and the review time vary significantly from country to country.

## OVERVIEW

Mr. Zhang and Mr. Chang became acquainted with the ex-shareholders of Shenzhen Huakang through their own personal and business connections in the early 2000's. Subsequently, after knowing the intention of the ex-shareholders of Shenzhen Huakang to dispose of their equity interest in Shenzhen Huakang, Mr. Zhang and Mr. Chang, in view of their positive expectation on the prospect of biomedical industry in the PRC, started the negotiation for the acquisition of such equity interest in Shenzhen Huakang.

Subsequently, King Grace, through a series of acquisitions, obtained 56% of the equity interest in Shenzhen Huakang by September 2003. At the time of the acquisition in September 2003, King Grace was held as to 29% by Mr. Zhang and 71% by Mr. Chang. Therefore, Mr. Zhang and Mr. Chang, through King Grace, have held and controlled the majority equity interest of Shenzhen Huakang since September 2003.

Following several share transfers which took place between 2003 and 2008, Shenzhen Huakang became wholly owned by King Grace and Shenzhen Junxuan as to 56% and 44% respectively. In April 2010, Mr. Zhang acquired 84.53% equity interest in Shenzhen Junxuan. Since then, Mr. Zhang and Mr. Chang, through King Grace and Shenzhen Junxuan, have further strengthened their control over Shenzhen Huakang.

Since September 2003, our Group has been principally engaged in the research and development, manufacture and sales of IVD reagents in China. Over the years, we have grown into a medical device group specialised in research and development, manufacture and sales of a wide range of IVD reagents in China. In particular, we ranked the third in the PRC male fertility IVD reagent market, with 14.3% of the market share in terms of medical institution purchase value in 2017, according to the CIC Report. As at the Latest Practicable Date our sales and distribution network has been expanded to various provinces, autonomous regions and municipalities in China, operated through 21 sales and marketing personnel and a network of over 100 distributors in China. Since 2011, we have been recognised as a High and New Technology Enterprise* (國家高新技術企業) in China.

## KEY BUSINESS MILESTONES AND ACHIEVEMENTS

The following illustrates our key business milestones and achievements:

| Year | Event |
|---|---|
| 2003 | Mr. Zhang and Mr. Chang, our Controlling Shareholders, through their respective interest in King Grace indirectly acquired 56% of the equity interest in Shenzhen Huakang. |
| 2004 | We started the research and development of male fertility IVD reagents. |
| 2005 | We expanded our production scale and established a production plant at No. 4th Taifeng Industrial Zone, Xuegang, Shajing, Bao'an District, Shenzhen* (深圳市寶安區沙井塭崗泰豐工業區4號). |

Our project in relation to the research and development of male fertility test kits (男性不育實驗診斷試劑盒系列的研究與開發項目) was awarded Third Class Prize of Scientific Progress* (科學進步三等獎) by Shenzhen Municipal People's Government* (深圳市人民政府).

2007 Our EBV antibody detection reagent obtained the first product registration certificate from CFDA.

2008 Our male fertility IVD reagent obtained the first product registration certificate from CFDA and was commercially launched in the PRC.

Our EBV antibody detection reagent was commercially launched in the PRC.

2011 Our project in relation to the recombinant expression of EB virus antigen epitope and development of the new generation of diagnostic reagents for nasopharyngeal carcinoma (EB病毒抗原表位元重組及新一代鼻咽癌診斷試劑研製項目) was awarded Third Class Prize of Science and Technology of Guangdong Province* (廣東省科學技術三等獎) by the People's Government of Guangdong Province* (廣東省人民政府).

Our products seminal plasma neutral alpha-glucosidase quantitative assay kit (精漿中性α-葡糖苷酶定量檢測試劑盒) and spermatozoan surface antibody IgG mixed agglutination reaction kit (精子膜表面抗體IgG檢測試劑盒) were accredited as "Shenzhen independent innovation products* (深圳市自主創新產品)" by the Science, Industry, Trade and Information Technology Commission of Shenzhen Municipality* (深圳市科技工貿和信息化委員會).

Shenzhen Huakang was granted, for the first time, the status of "High and New Technology Enterprise"* (國家高新技術企業) by the relevant governmental authorities in the PRC.

2012 We started the research and development of parasite antibody detection reagents.

2013 Shenzhen Huakang was granted, for the first time, the status of "Shenzhen High and New Technology Enterprise"* (深圳高新技術企業) by the relevant governmental authorities in the PRC.

Our product spermatozoan surface antibody IgG mixed agglutination reaction kit (精子膜表面抗體IgG檢測試劑盒) was awarded Science and Technology Award of the Shenzhen Bao'an District* (深圳市寶安區科學技術獎) by Shenzhen Municipal People's Government* (深圳市人民政府).

Our parasite antibody detection reagent obtained the first product registration certificate from CFDA and was commercially launched in the PRC.

| | |
|---|---|
| 2014 | One of our parasite antibody detection reagents is among the only two liver fluke IVD reagents which the CFDA has approved for manufacture and sale in the PRC. |
| 2016 | We moved to a new production plant at 1-3/F, Building D, Shenzhen Junxuan, 16 Yinkui Road, Kui Xin Community, Kui Chong Office, Dapeng New District, Shenzhen, the PRC* (中國深圳市大鵬新區葵涌辦事處葵新社區銀葵路16號君軒公司D棟廠房一至三層). |
| | We ranked the third among all manufacturers of male fertility IVD reagents in the PRC in terms of medical institution purchase value. |
| 2017 | Our Company was incorporated in the Cayman Islands. |

## OUR CORPORATE HISTORY

Our Group consists of our Company, Huakang BVI, King Grace and Shenzhen Huakang. Particulars of each Group member are set out below:

### Our Company

Our Company was incorporated in the Cayman Islands on 3 August 2017 as an exempted company with limited liability in anticipation of the **[REDACTED]**. Upon its incorporation, the authorised share capital of our Company was HK$380,000 divided into 38,000,000 Shares of HK$0.01 each. For further details, please refer to the paragraph headed "– Reorganisation – 3. Incorporation of Our Company" in this section.

### Huakang BVI

Huakang BVI was incorporated in the BVI with limited liability on 4 August 2017, to serve as an intermediate holding company, as part of the Reorganisation. Upon its incorporation, Huakang BVI was authorised to issue a maximum of 50,000 shares of US$1.00 each, one share of which was allotted and issued as fully paid at par to our Company, representing the entire issued share capital of Huakang BVI. As such, Huakang BVI became the direct wholly-owned subsidiary of our Company.

### King Grace

King Grace was incorporated in the BVI with limited liability on 22 April 2002 to hold the interests of Shenzhen Huakang. Upon its incorporation, King Grace had an authorised share capital of US$50,000 divided into 500,000 shares of US$0.10 each. Upon its incorporation, 71 shares were allotted and issued to Mr. Chang while 20 shares and nine shares were allotted and issued fully paid at par to Mr. Ding Yeqing and Mr. Liang Peihua, respectively, both of whom were employees of Shenzhen Junxuan at that time. In September 2003, Mr. Ding Yeqing and Mr. Liang Peihua resigned as employees of Shenzhen Junxuan. Following their resignation, they transferred 20 shares and nine shares in King Grace respectively to Mr. Zhang at par value in September 2003. Throughout the Track Record Period and immediately prior to the Reorganisation, King Grace was owned as to 71% and 29% by Mr. Chang and Mr. Zhang, respectively. King Grace has been an investment holding company since its incorporation.

**Shenzhen Huakang**

We primarily conduct our business in China through Shenzhen Huakang, which principally engages in the research and development, manufacture and sales of IVD reagents in China.

Shenzhen Huakang was established in the PRC on 26 June 1992 with an initial registered capital of US$200,000. At the time of its establishment, Shenzhen Huakang was owned as to 20% and 80% by two Independent Third Parties respectively. The registered capital of Shenzhen Huakang was subsequently increased to US$500,000, which was fully paid up by December 1992. Such increase of registered and paid-up capital of Shenzhen Huakang was registered with the Shenzhen Administration for Industry and Commerce* (深圳市工商行政管理局) in June 1993.

Pursuant to an equity transfer agreement in September 2002, Shenzhen Junxuan and King Grace acquired 44% and 33% of the equity interest in Shenzhen Huakang respectively from two Independent Third Parties at the consideration of RMB184,800 and RMB138,600, respectively. The considerations were determined based on arm's length negotiations with regard to Shenzhen Huakang's net asset value as at 31 May 2002 evaluated by an independent accountancy firm and taking into account Shenzhen Junxuan's assumption of certain debts owed by Shenzhen Huakang. Such acquisition was legally and validly completed in August 2003.

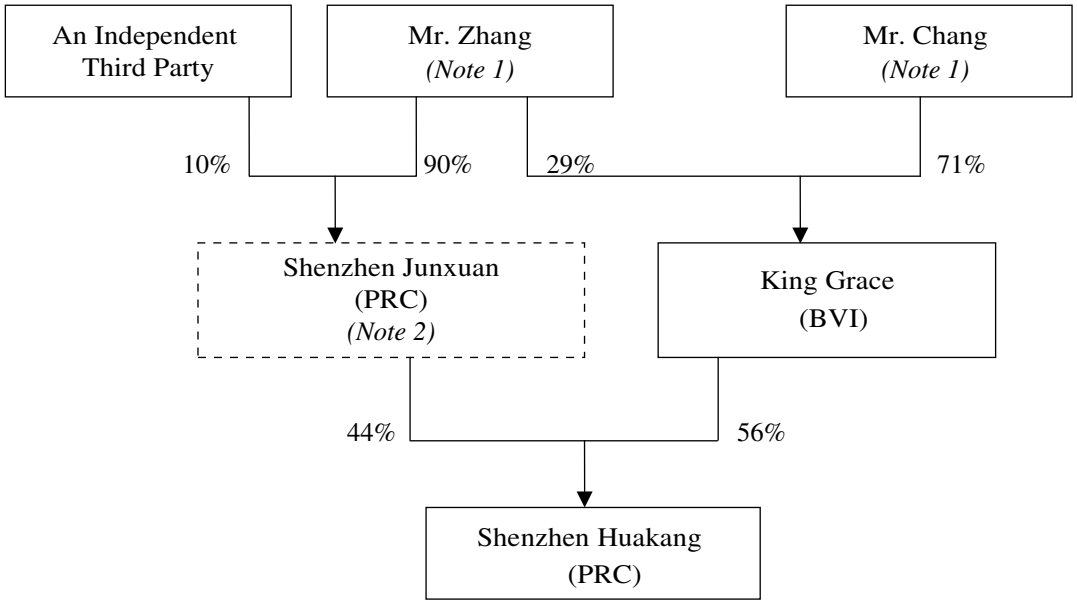
Pursuant to an equity transfer agreement dated 21 August 2003, King Grace further acquired the remaining 23% equity interest in Shenzhen Huakang from the remaining shareholder, an Independent Third Party, at a consideration of HK$350,000. The consideration was determined based on arm's length negotiations with regard to Shenzhen Huakang's financial condition and result of operation and such acquisition was legally and validly completed in September 2003.

Following several share transfers which took place between 2003 and 2008, Shenzhen Huakang was owned by King Grace and Shenzhen Junxuan as to 56% and 44% respectively. Upon completion of the Reorganisation, Shenzhen Junxuan was not included in our Group. For further details on Shenzhen Junxuan, please refer to the paragraph headed "– Reorganisation – 1. Transfer of equity interest in Shenzhen Junxuan" in this section and the subsection headed "Relationship with Our Controlling Shareholders – Excluded Business – Shenzhen Junxuan" in this document.

As advised by our PRC Legal Advisers, all the above-mentioned share transfers in Shenzhen Huakang have been properly and legally completed, including all applicable regulatory approvals having been obtained.

## OUR GROUP STRUCTURE PRIOR TO THE REORGANISATION

The following chart sets forth our corporate structure immediately prior to the Reorganisation:




*Notes:*

1. On 16 November 2017, Mr. Zhang and Mr. Chang entered into an Acting-in-concert Confirmation, whereby, among other things, they (i) acknowledged and confirmed they are parties acting in concert with respect to Shenzhen Huakang since September 2003 as well as their intention to continue to act in the above manner with respect to each member of our Group upon the **[REDACTED]** to consolidate their control over our Group, and (ii) have further undertaken that, during the period when they were/are contemporaneously the shareholders of any members of our Group, until entering into a letter of termination at any time after the **[REDACTED]**, they will maintain the acting in concert relationship with respect to each member of our Group.

2. Following the Reorganisation, Shenzhen Junxuan was not included in our Group. For further details of the background of Shenzhen Junxuan, please refer to the paragraph headed "Reorganisation – 1. Transfer of equity interest in Shenzhen Junxuan" in this section and the subsection headed "Relationship with Our Controlling Shareholders – Excluded Business – Shenzhen Junxuan" in this document.

## [REDACTED] INVESTMENTS

### The [REDACTED] Subscription and Shareholders' Agreement

#### *Overview*

Pursuant to the **[REDACTED]** Subscription and Shareholders' Agreement entered into among our Company, Crystal Grant and Ever Charming and the **[REDACTED]** Investors, the **[REDACTED]** Investors agreed to subscribe for, and our Company agreed to allot and issue 1,500 Shares, 500 Shares and 500 Shares to Gallizul, Hollingberg and Hilland at the consideration of HK$**[REDACTED]**, HK$**[REDACTED]** and HK$**[REDACTED]**, respectively. The

said 2,500 Shares were duly allotted and issued, the above-mentioned subscriptions were properly and legally completed and the considerations were settled on 31 August 2017, being at least 28 clear days before the date of submission of the initial **[REDACTED]** application of the Company. After the said subscriptions, the total number of issued Shares of our Company was increased from 10,000 Shares to 12,500 Shares and our Company was owned as to **[REDACTED]**% by Crystal Grant, **[REDACTED]**% by Ever Charming, **[REDACTED]**% by Gallizul, **[REDACTED]**% by Hollingberg and **[REDACTED]**% by Hilland.

On 31 August 2017, our Company, Crystal Grant, Ever Charming and the **[REDACTED]** Investors also entered into a put option deed, pursuant to which our Company granted put options to each of the **[REDACTED]** Investors to sell back its Shares to our Company in the event that our Company has aborted the application for **[REDACTED]** or failed to meet the **[REDACTED]** requirements. On the same date, our Company further enter into a deed of tax indemnity with a supplemental deed dated 21 February 2018 with the **[REDACTED]** Investors, pursuant to which, among others, our Company agreed to indemnify the **[REDACTED]** Investors from certain claims for taxation against the **[REDACTED]** Investors and/or our Company, which shall be terminated upon **[REDACTED]**.

The table below sets out the key particulars of the **[REDACTED]** Investments mentioned above:

| | **Name of the [REDACTED] Investors** | | |
|---|---|---|---|
| | **Gallizul** | **Hollingberg** | **Hilland** |
| **Date of the [REDACTED] Subscription and Shareholders' Agreement:** | 31 August 2017 (supplemented by a supplemental agreement dated 16 November 2017) | | |
| **Consideration:** | HK$**[REDACTED]** | HK$**[REDACTED]** | HK$**[REDACTED]** |
| **Date of completion and payment date of the consideration:** | The **[REDACTED]** Investments were completed and the considerations were fully settled on 31 August 2017. | | |
| **Number of Shares subscribed:** | 1,500 | 500 | 500 |
| **Shareholding in our Company immediately after completion of the subscriptions and prior to the [REDACTED]:** | **[REDACTED]**% | **[REDACTED]**% | **[REDACTED]**% |
| **Approximate cost per Share** *(Note)*: | HK$**[REDACTED]** | HK$**[REDACTED]** | HK$**[REDACTED]** |
| **Approximate discount to the mid-point of the [REDACTED]:** | **[REDACTED]**% | **[REDACTED]**% | **[REDACTED]**% |
| **Basis of determining the consideration:** | Based on arm's length negotiations and with reference to the earnings before interest expenses, taxation, depreciation and amortisation of our Group for the year 2016. | | |

| | | | |
|---|---|---|---|
| **[REDACTED] from the [REDACTED] Investments:** | The proceeds from the **[REDACTED]** Investments shall be applied for working capital of our Group. | | |
| **Utilisation of proceeds:** | As at the Latest Practicable Date, **[REDACTED]**% of the net proceeds from the **[REDACTED]** Investments have been utilised as part of the **[REDACTED]**, administrative expenses and repayment to Mr. Chang, our Controlling Shareholder. | | |
| **Number of Shares held by each [REDACTED] Investors upon the [REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** |
| **Shareholding in our Company upon the [REDACTED]:** | **[REDACTED]**% | **[REDACTED]**% | **[REDACTED]**% |

**Lock-up period:**

Each of the **[REDACTED]** Investors is subject to a lock-up period of six months from the date on which the Shares commence trading on the Stock Exchange.

**Special rights:**

The **[REDACTED]** Investors have been granted the following special rights, each of which will automatically be terminated upon the **[REDACTED]**:

**Profit guarantee:**

During the period of 1 January 2017 to 31 December 2017, the consolidated net profit (attributable to the equity Shareholders of our Company) after tax and extraordinary items of our Group (in the ordinary course of business and excluding profits arising from merger and acquisition and excluding any **[REDACTED]**) under the consolidated audited accounts of our Company shall not be less than HK$8.0 million.

If our Company's actual net profit for the aforesaid period is less than HK$8.0 million, the **[REDACTED]** Investors shall be entitled to compensation jointly or severally to be paid by Crystal Grant and Ever Charming a cash sum equal to 5% of the amount by which the actual net profit falls short of HK$8.0 million. Such compensation shall be paid jointly or severally by Crystal Grant and Ever Charming within three months upon the written request of the **[REDACTED]** Investors to Crystal Grant and Ever Charming.

**Put option:**

The **[REDACTED]** Investors may, in their sole discretion, exercise a put option to sell back to our Company all the Shares subscribed by them pursuant to the terms and conditions of the put option deed in the event that our Company has aborted the application for the **[REDACTED]** or failed to meet the requirements for such application for the **[REDACTED]** at any time during the 37 months commencing from the date of signing of the put option deed, being 31 August 2017.

The rights of the **[REDACTED]** Investors under the put option deed shall be suspended during the periods (i) commencing on the date of our Company's submission of each **[REDACTED]** application to the Stock Exchange and ending on the date on which the application is withdrawn, lapses (and no re-filing is made within three months from the date on which the application lapses) or is rejected or returned by the Stock Exchange (both dates inclusive) and (ii) commencing on the date of filing of a review request or appeal request to the Stock Exchange against the decision of rejection or return of the **[REDACTED]** application and ending on the date on which the review or appeal is rejected.

**Accounting matters, business plans and dividend policy:**

Our Company shall prepare monthly management accounts and reports in relation to our Company and each member of our Group, such accounts shall include a profit and loss account, balance sheet, cash flow statement and such additional information as each of the Shareholders from time to time shall reasonably require and which shall be despatched by our Company to each of the Shareholders within 30 days of the end of the month concerned. Each of the Shareholders and their respective authorised representatives shall be allowed access during business hours with as little disruption to the operations of each member of our Group as possible to examine the books and records of our Company and each member of our Group and to discuss their affairs with their directors and senior management.

**Prior consent for certain corporate actions:**

The Shareholders shall procure that, save as is required by any applicable law or any order made by any authority or otherwise contemplated in the **[REDACTED]** Subscription and Shareholders' Agreement or the Reorganisation or with the consent of the **[REDACTED]** Investors, among others, (i) certain corporate actions such as alteration of issued share capital, alteration of the Memorandum or Articles or the creation of new Shares, shall not be taken, and (ii) our Company shall not agree to enter into any transaction, including but not limited to, the acquisition of any company or securities of any body corporate, the disposal of all or a material part of our Company's business or creation of any encumbrance over our Company's assets or provision of guarantee.

**Share transfers:**

Save as otherwise expressly provided or allowed by the **[REDACTED]** Subscription and Shareholders' Agreement, none of the Shareholders shall whilst remaining a Shareholder of our Company, sell, transfer, mortgage, charge, encumber, grant options over or otherwise dispose of any legal or beneficial interest in any of the Shares then or subsequently beneficially owned by it except (i) with the prior written consent of all other Shareholders (which may be withheld for any reason or without giving any reason), or (ii) that a Shareholder may freely transfer any Shares to an affiliate, provided that if such transferee ceases to be an affiliate of the transferor, the transferee shall transfer such Shares back to the transferor of those Shares or to any of its affiliates, and provided that (where applicable) the prior written consent of all other Shareholders has been obtained.

**Pre-emptive rights:**

Any Shareholder wishing to dispose of any of its Shares or any beneficial interest therein ("**Sale Shares**") shall obtain the prior written consent of the other Shareholders and give prior notice in writing with specified details to our Company that it wishes to dispose of one or more of its Sale Shares. Our Company shall, as soon as reasonably practicable, give notice in writing to the other Shareholders informing them that the Sale Shares are available for transfer and of the sale price and shall invite those Shareholders to state in writing within 45 days from the date of the said notice (which date shall be specified therein) whether it is willing to purchase all of the Sale Shares.

*Note:* The approximate cost per Share is calculated based on the amount of the consideration paid by each of the **[REDACTED]** Investors divided by the number of Shares to be held by it upon the **[REDACTED]**.

**Background of the [REDACTED] Investors and their relationship with our Group**

***Gallizul***

Gallizul is an investment holding company incorporated in the BVI with limited liability on 20 June 2017 and the shares of which are beneficially owned by (i) as to 50% by Ms. Huang Yan, (ii) as to 8.33% by ACE Fortune Business Limited, which is a company incorporated in the BVI and is an investment holding company, the ultimate shareholders of ACE Fortune Business Limited are Mr. Fung Kar Lun Andrew, Mr. Chan Siu Wah Joseph, Mr. Leung Sing Wing Vincent, Mr. Fung Pak Chuen Alphonso and Mr. Lo Richard, (iii) as to 8.33% by Mr. Chiu Wai Keung, (iv) as to 16.67% by Mr. Liu Huajun, and (v) as to 16.67% by Mr. Tsoi Kong Kenman, all of which are Independent Third Parties. All the shareholders of Gallizul through their respective business network became acquainted with Mr. Poon, our Executive Director and were all introduced to our Group by Mr. Poon. They decided to invest in our Group through Gallizul because they were attracted to our Group's growth potential and prospects. The source of funding of Gallizul's investment in our Group was from Gallizul's shareholders' own resources.

***Hollingberg***

Hollingberg is an investment holding company incorporated in the BVI with limited liability on 13 July 2017 and the shares of which are beneficially wholly owned by Ms. Tse Wai Ching Yvonne ("**Ms. Tse**"), an Independent Third Party. Ms. Tse became acquainted with Mr. Poon, our Executive Director through their respective business network and was introduced to our Group by Mr. Poon. Ms. Tse decided to invest in our Group through Hollingberg because she was attracted to our Group's growth potential and prospects. The source of funding of Hollingberg's investment in our Group was from the personal resources of Ms. Tse.

***Hilland***

Hilland is an investment holding company incorporated in the BVI with limited liability on 7 July 2017 and the shares of which are beneficially wholly owned by Mr. Ma Cheong Daniel, an Independent Third Party.

Mr. Ma became acquainted with Mr. Zhang, through their respective business network and decided to invest in our Group through Hilland because he was attracted to our Group's growth potential and prospects. The source of funding of Hilland's investment in our Group was from the personal resources of Mr. Ma.

To the best knowledge of our Directors after due and careful enquiry, as at the Latest Practicable Date, Gallizul, Hollingberg and Hilland did not have any past or present relationship or any agreement or arrangement with each other and were independent of each other.

Save as the **[REDACTED]** Investments, to the best knowledge of our Directors, each of the **[REDACTED]** Investors and their ultimate beneficial owners is an Independent Third Party.

***Strategic benefits of the* [REDACTED] *Investments***

Our Directors believe that the **[REDACTED]** Investors will bring strategic benefits to our Group by strengthening and diversifying the Shareholders' portfolio of our Company, expanding our Group's business network and exploring potential business opportunities for the future development which would fund our working capital and other needs of our business. As such, our Group would have capacity to raise external funds, as well as to boost the confidence of potential public investors:

(1) Gallizul and its affiliates are involved in private equity investments in Hong Kong, PRC and overseas. To the best knowledge of our Directors, Ms. Huang Yan, being the major shareholder of Gallizul, together with her affiliates, also has experience in investment in Chinese medicine and health care business in the PRC. In addition, Ms. Huang Yan has previously, in her capacity as a private equity investor, invested in a PRC based medical device company principally engaged in the manufacturing and sales of respiratory products and imaging disposable products. By introducing Gallizul as our **[REDACTED]** Investor, we could leverage on their business networks, industry expertise and investment experience, particularly those from Hong Kong, PRC and overseas, to acquire the latest industry information and broaden our potential customer base. For example, our Directors believe that our Group can benefit from the business network of Gallizul and its affiliates which will help our Group further develop a more extensive sales and distribution network.

(2) Hollingberg and its affiliates are involved in property investments and private equity investments in Hong Kong, PRC and the United States. In addition, to the best knowledge of our Directors, the family of Ms. Tse Wai Ching Yvonne, being the sole shareholder of Hollingberg, also owns and operates an asset management company in Hong Kong. Although Hollingberg did not have experience relevant to the biomedical-related industry, our Directors believe that introducing Hollingberg as our **[REDACTED]** Investor allow our Group to further expand our investor base and business network. For example, our Directors believe that Hollingberg and its affiliates' network of investors will assist our Group to form strategic affiliations with institutional investors and high net worth investors engaged in a diverse range

of business activities, thereby diversifying our funding sources and business network. Further, our Directors believe that Hollingberg and its affiliates could provide us with valuable advice including finance and investment, in the future.

(3) Although Hilland and its affiliates did not have experience relevant to the biomedical-related industry, they have extensive experience in corporate management and information technology sectors such as information system integration, our Directors believe that introducing Hilland as our **[REDACTED]** Investor will bring us strategic benefits in enhancing our internal control and corporate management to support our business growth. For example, our Directors believe that Hilland and its affiliates could provide us with valuable advice on various aspects of business management including improving our operational efficiency through the application and/or enhancement of information technology in a more cost-effective manner. For instance, for efficient allocation of our Group's resources, instead of solely relying on external consultants, our Directors believe that Hilland and its affiliates could assist us with reviewing and upgrading our network security system.

***Public Float***

Since the shareholding of each of the **[REDACTED]** Investors in our Company upon the **[REDACTED]** will be less than **[REDACTED]**% (as to **[REDACTED]**% by Gallizul, as to **[REDACTED]**% by Hollingberg and as to **[REDACTED]**% by Hilland) and the acquisition of their respective interest in our Shares was not directly or indirectly financed by any connected person of our Company, the Shares held by the **[REDACTED]** Investors will be counted towards part of the public float for the purpose of Rule 11.23 of the GEM Listing Rules.

***Sole Sponsor's View***

The Sole Sponsor is of the view that the investments by the **[REDACTED]** Investors have complied with the guidance letters HKEx-GL29-12 (updated in March 2017) and HKEx-GL43-12 (updated in July 2013 and March 2017) and HKEx-GL44-12 (updated in March 2017), issued by the Stock Exchange as the considerations for such **[REDACTED]** Investments were fully settled more than 28 clear days before the date of submission of the initial **[REDACTED]** application of the Company and no special rights shall survive upon the **[REDACTED]**.

**REORGANISATION**

Prior to the Reorganisation, (i) King Grace was owned as to 71% by Mr. Chang and 29% by Mr. Zhang; and (ii) Shenzhen Huakang was owned as to 56% by King Grace and 44% by Shenzhen Junxuan.

In preparation for the **[REDACTED]**, our Group underwent the Reorganisation, which involved the following steps:

**1. Transfer of equity interest in Shenzhen Junxuan**

On 27 June 2017, an equity transfer agreement was entered into between an Independent Third Party and Mr. Zhang, pursuant to which the Independent Third Party agreed to transfer its equity interest of 10% in Shenzhen Junxuan to Mr. Zhang at the consideration of RMB3.0 million. The consideration was determined with reference to the paid-up capital of Shenzhen Junxuan as at 27 June 2017. The consideration was fully settled on 18 August 2017. As advised by our PRC Legal Advisers, the transaction was registered

with Shenzhen MSA on 10 July 2017 and the equity transfer has fulfilled the necessary legal procedures such as the filing requirement of industrial and commercial registration, which complies with the relevant provisions of PRC Law. Upon completion of the equity transfer, the entire equity interest of Shenzhen Junxuan was wholly owned by Mr. Zhang. Following the completion of the Reorganisation, Shenzhen Junxuan was not included in our Group. For further details of Shenzhen Junxuan, please refer to the subsection headed "Relationship with Our Controlling Shareholders – Excluded Business – Shenzhen Junxuan" in this document.

**2. Incorporation of Crystal Grant and Ever Charming**

***Crystal Grant***

On 6 July 2017, Crystal Grant was incorporated in the BVI with limited liability. Upon its incorporation, Crystal Grant was authorised to issue a maximum of 50,000 shares of US$1.00 each, of which 100 shares of US$1.00 each, nil-paid were allotted and issued to Mr. Zhang on 19 July 2017, representing the entire issued share capital of Crystal Grant. All issued shares of Crystal Grant were credited as fully paid on 28 November 2017.

***Ever Charming***

On 6 July 2017, Ever Charming was incorporated in the BVI with limited liability. Upon its incorporation, Ever Charming was authorised to issue a maximum of 50,000 shares of US$1.00 each, of which 100 shares were allotted and issued fully paid at par to Mr. Chang on 19 July 2017, representing the entire issued share capital of Ever Charming.

**3. Incorporation of our Company**

Our Company was incorporated as an exempted company under the laws of the Cayman Islands with limited liability on 3 August 2017 to act as the ultimate holding company of our Group. Upon its incorporation, the authorised share capital was HK$380,000 divided into 38,000,000 Shares of HK$0.01 each. At incorporation, one Share, nil-paid, was allotted and issued to the initial subscriber, an Independent Third Party, which was then subsequently transferred to Crystal Grant on the same day. On 3 August 2017, 557 Shares, nil-paid, and 442 Shares, fully paid at par, were allotted and issued to Crystal Grant and Ever Charming, respectively. On 28 August 2017, 5,466 Shares, nil-paid, and 3,534 Shares, fully paid at par, were further allotted and issued to Crystal Grant and Ever Charming, respectively. Following the above subscriptions and transfer, 6,024 Shares and 3,976 Shares were held by Crystal Grant and Ever Charming respectively, representing 60.24% and 39.76% of the issued share capital of our Company. All issued shares of our Company to Crystal Grant were credited as fully paid on 28 November 2017.

On 3 October 2017, our Company was registered in Hong Kong under Part 16 of the Companies Ordinance as a non-Hong Kong company.

**4. Incorporation of Huakang BVI as our intermediate holding company**

On 4 August 2017, Huakang BVI was incorporated in the BVI as a BVI business company. Upon its incorporation, Huakang BVI was authorised to issue a maximum of 50,000 shares of US$1.00 each of which, one fully paid share was allotted and issued to our Company at par. As such, Huakang BVI became the direct wholly-owned subsidiary of our Company.

### 5. [REDACTED] Investments

Pursuant to the **[REDACTED]** Subscription and Shareholders' Agreement, our Company allotted and issued 1,500 Shares, 500 Shares and 500 Shares to Gallizul, Hollingberg and Hilland, respectively. Following such allotments, our Company was owned as to **[REDACTED]**% by Crystal Grant, **[REDACTED]**% by Ever Charming, **[REDACTED]**% by Gallizul, **[REDACTED]**% by Hollingberg and **[REDACTED]**% by Hilland. For further details, please refer to the paragraph headed "**[REDACTED]** Investments" in this section.

### 6. Acquisition of King Grace

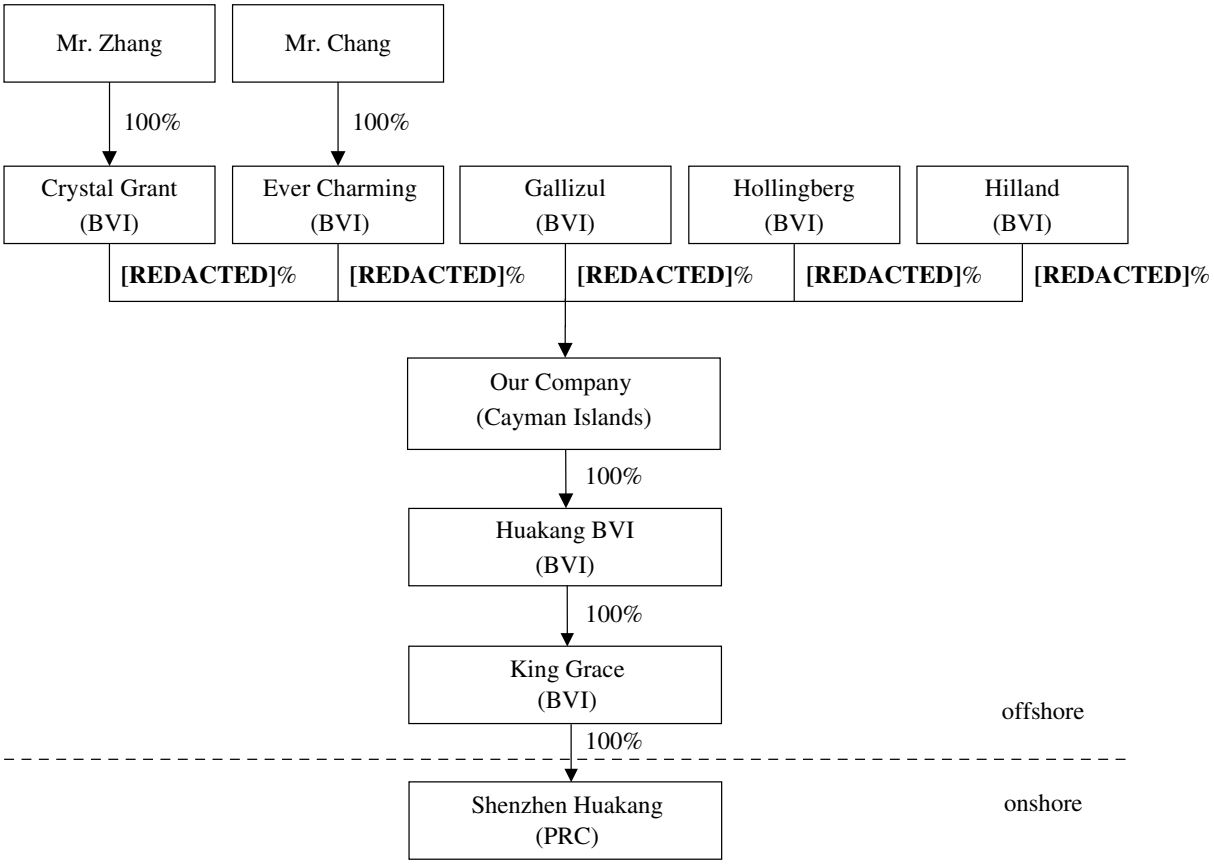
On 14 September 2017, Mr. Zhang and Mr. Chang transferred 29% and 71% in King Grace to Huakang BVI for a nominal consideration of US$2.9 and US$7.1, respectively. The share transfer was legally and validly completed on 14 September 2017. Upon completion of the share transfer, the entire issued share capital of King Grace was owned by Huakang BVI.

### 7. Acquisition of Shenzhen Huakang

On 30 August 2017, an equity transfer agreement was entered into between Shenzhen Junxuan (as vendor) and King Grace (as purchaser), pursuant to which Shenzhen Junxuan agreed to transfer 44% equity interest in Shenzhen Huakang to King Grace at the consideration of US$220,000. The consideration was determined with reference to the paid-up capital of Shenzhen Huakang at that time. The consideration was fully settled on 17 November 2017. As advised by our PRC Legal Advisers, the transaction was registered with Shenzhen MSA on 20 September 2017 and the equity transfer was legally and validly completed on 20 September 2017 upon the issue of an updated business licence by the Shenzhen MSA to Shenzhen Huakang. Upon completion of the equity transfer, the entire equity interest of Shenzhen Huakang was owned by King Grace, and Shenzhen Huakang was converted into a WFOE.

Upon completion of the above acquisitions and transfers of equity interest, (i) Huakang BVI became a direct wholly-owned subsidiary of our Company; and (ii) King Grace and Shenzhen Huakang became indirect wholly-owned subsidiaries of our Company. As advised by our PRC Legal Advisers, the Reorganisation steps set out above in respect of the acquisitions and transfers of the equity interests in the relevant PRC companies have been properly and legally completed and settled, including all applicable regulatory approvals having been obtained. For the purposes of the GEM Listing Rules, Mr. Zhang, Mr. Chang and their respective holding companies, Crystal Grant and Ever Charming have been regarded as a group of Controlling Shareholders since they have been parties acting in concert for the matters of our Group by virtue of the Acting-in-concert Confirmation.

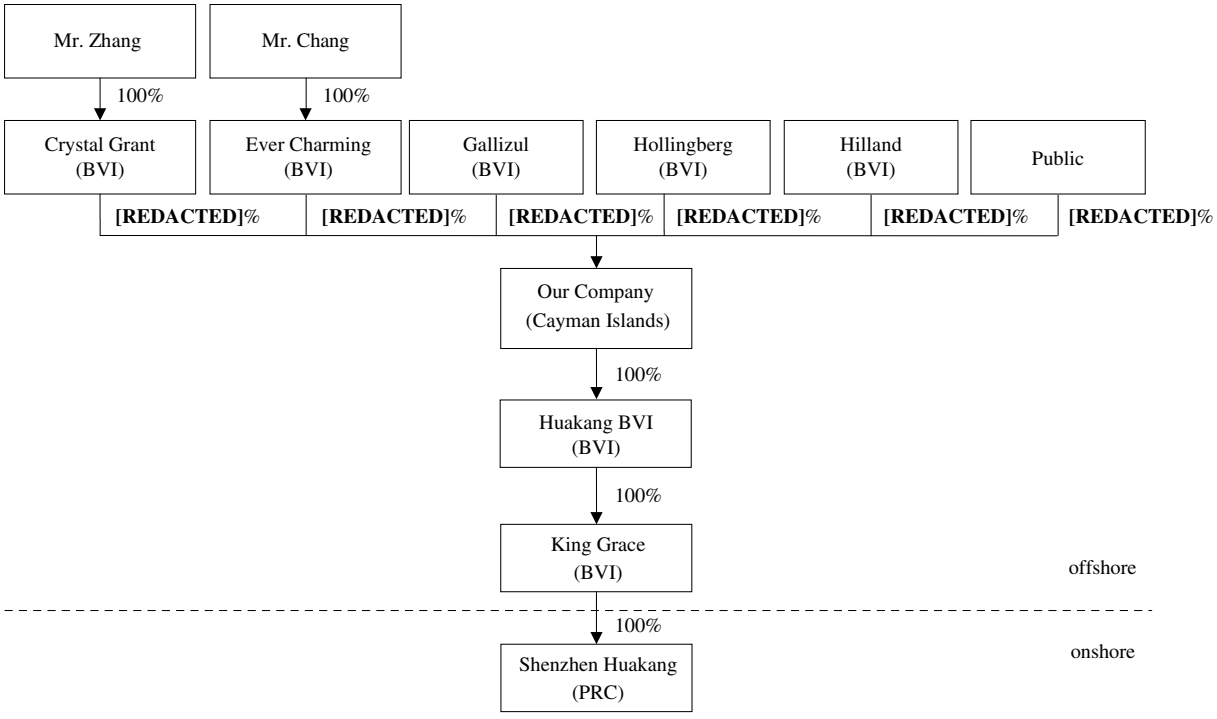
Upon completion of the Reorganisation, our Company became the holding company of our Group. The following chart sets out the corporate structure of our Group immediately after the Reorganisation and the **[REDACTED]** Investments but prior to the **[REDACTED]** and the **[REDACTED]**:




**[REDACTED] AND [REDACTED]**

Conditional upon the share premium account of our Company being credited with the proceeds from the **[REDACTED]**, HK$**[REDACTED]** will be capitalised from the share premium account of our Company and applied in paying up in full at par **[REDACTED]** new Shares for the allotment and issuance to the existing Shareholders of our Company, namely Crystal Grant, Ever Charming, Gallizul, Hollingberg and Hilland, on or before the **[REDACTED]**.

Set forth below is the corporate structure of our Group immediately after completion of the **[REDACTED]** and the **[REDACTED]**:




## PRC LEGAL COMPLIANCE

### SAFE Registration

Pursuant to the Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Overseas Investment and Financing and in Return Investment Via Special Purpose Companies (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the "**Circular No. 37**") promulgated by the SAFE which became effective on 4 July 2014, a PRC citizen residing in the PRC or overseas individuals who do not hold a Chinese identity document but have a habitual residence in China due to economic interests (a "**PRC Resident**") must register with the local branch of SAFE before he/she contributes legal assets or equity interests in China or overseas, in an oversea special purpose vehicle, which is directly incorporated or indirectly controlled by the PRC Resident for the purpose of overseas investment or financing.

Pursuant to the Notice on Further Simplifying and Improving the Foreign Exchange Management Policies for Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (the "**Circular No. 13**") promulgated by the SAFE which became effective on 1 June 2015, SAFE cancelled the foreign exchange registration approval under overseas direct investment. The banks would directly review and carry out foreign exchange registration, and the SAFE and its branches shall, through the banks, supervise over the foreign exchange registration of overseas direct investments.

Our PRC Legal Advisers are of the view that, given that Mr. Chang, our ultimate individual shareholder is a permanent resident of Hong Kong and not a PRC Resident, Mr. Chang is not subject to the registration requirement under Circular No. 37. As confirmed by our PRC Legal Advisers, Mr. Zhang, the ultimate individual Shareholder of our Company, has completed the foreign exchange makeup registration of King Grace and the foreign exchange registration of Crystal Grant before 29 November 2017.

**Provisions on M&A**

According to Provisions on Merger and Acquisition of Domestic Enterprises by Foreign investor (《關於外國投資者併購境內企業的規定》) (the "**Provisions on M&A**") promulgated by the MOFCOM which become effective on 22 June 2009, any merger and acquisition of non-foreign investment enterprises in China (hereinafter referred to as the "**domestic companies**") by foreign investors shall be subject to examination and approval of the MOFCOM or province-level commercial authority.

According to Article 2 of Provisions on M&A, "merger and acquisition of domestic enterprises by foreign investors" shall mean that a foreign investor purchases the equity interest of a shareholder in a domestic non-foreign-invested enterprise ("**domestic company**") or subscribes for increased capital of a domestic company so as to convert such domestic company into a foreign-invested enterprise ("**merger and acquisition of equity interest**"); or a foreign investor establishes a foreign-invested enterprise, through which it purchases and operates the assets of a domestic enterprise by agreement, or, a foreign investor purchases the assets of a domestic enterprise by agreement and then invests such assets to establish a foreign-invested enterprise and operates the assets ("**merger and acquisition of assets interest**"). According to Article 11 of the Provisions on M&A, the merger and acquisition of a domestic company with a related party relationship by a domestic company, enterprise or individual in the name of an overseas company legitimately incorporated or controlled by the domestic company, enterprise or individual shall be subject to examination and approval by MOFCOM. The parties involved shall not use domestic investment by foreign invested enterprises or other methods to circumvent the aforesaid requirements.

As advised by our PRC Legal Advisers, as the Reorganisation did not involve merger and acquisition of equity interest and assets interest mentioned above and hence the rules under Provisions on M&A do not apply.

Our PRC Legal Advisers confirmed that all necessary approvals, permits and licences required under the PRC laws and regulations in connection with the Reorganisation as set forth in this section have been obtained, and the Reorganisation has complied with all applicable PRC laws and regulations.

However, our PRC Legal Advisers do not exclude the possibility that the China Securities Regulatory Commission (hereinafter referred to as the "**CSRC**") may later issue interpretations, make further clarifications, or promulgate new rules, ordinance or guidelines, relating to the M&A Rules, which would require us to obtain its approval. Under the circumstance mentioned above, we shall thereby obtain approval from the CSRC accordingly.

## OVERVIEW

We are a medical device group specialised in the research and development, manufacture and sale of a wide range of IVD reagents in China. Leveraging on our knowledge and experience, our Group is particularly focused on the PRC male fertility IVD market. We ranked the third among all manufacturers of male fertility IVD reagents in China, having 14.3% share of this market in terms of medical institution purchase value in 2017, according to the CIC Report. We have developed our product portfolio of male fertility IVD reagents, with the largest number of products registered with the CFDA and Provincial FDAs among all the industry players in 2017. One of our parasite antibody detection reagents is among the only two liver fluke IVD reagents which the CFDA has approved for manufacture and sale in China up to the Latest Practicable Date.

Our product portfolio of IVD reagents comprises (i) male fertility IVD reagents, (ii) parasite antibody detection reagents and (iii) an EBV antibody detection reagent. Our IVD reagents are designed to aid the diagnosis of diseases and conditions. Based on the clinical diagnostic uses, our male fertility IVD reagents are further categorised into sperm function test products, accessory genital glands test products, anti-sperm antibody test products and male reproductive tract infection test products. During the Track Record Period, we manufactured and sold 27 IVD reagents which comprised 24 male fertility IVD reagents, two parasite antibody detection reagents and one EBV antibody detection reagent. We have registered 13 of our male fertility IVD reagents with GDFDA as Class II medical devices and filed with Shenzhen MSA in respect of the remaining 11 male fertility IVD reagents as Class I medical devices. We have also registered our two parasite antibody detection reagents and the EBV antibody detection reagent with the CFDA as Class III medical devices. We believe that the variety of our product offering is a reflection of our knowledge and expertise in the development, manufacture and sale of IVD agents. Moreover, focusing on the safety and reliability of our products, we have implemented the quality management system and standard operating procedures in our production process which is conducted in compliance with the PRC-recognised manufacture and quality control standards.

Research and development capabilities are one of our key competitive strengths. Our research and development team employs a market-driven approach for developing products based on commercial potential and the likelihood of successful development, as well as for improving the effectiveness and quality of our existing products. Furthermore, we have established a pipeline of product candidates for the steady supply of new products. We currently have five pipeline products, including three pipeline products at various stages of clinical trials and two pipeline products in the research and development phase.

We sell our products through (i) direct sales and (ii) our distributors to end users, mainly hospitals and medical institutions in China, which use our products for diagnostic testing purposes. We operate a sales and distribution network with a broad geographical coverage of 25 provinces, autonomous regions and municipalities in China. As at the Latest Practicable Date, our sales, marketing and distribution functions were conducted through 21 sales and marketing personnel, and a network of over 100 distributors, in China. We have devoted resources to communications with our customers and end users so that we are able to better understand their specific requirements, and we further educate them on the usages and characteristics of our products. Additionally, we sell auxiliary reproductive supplies and equipment which are normally used by our customers and end users in conjunction with, among others, our male fertility IVD reagents and/

or the fertility IVD reagents of other manufacturers during infertility diagnosis processes. The provision of combined solutions of IVD reagents, auxiliary reproductive supplies and equipment, as well as related services is one of our key strategies to cultivate and maintain our customer base.

Our total revenue grew by RMB5.9 million, or by 30.6%, from RMB19.5 million for FY2015 to RMB25.4 million for FY2016, and further increased by RMB1.1 million, or by 4.5%, from RMB25.4 million for FY2016 to RMB26.5 million for FY2017. Our total revenue increased by RMB1.4 million, or by 14.6%, from RMB9.6 million for the five months ended 31 May 2017 to RMB11.0 million for the five months ended 31 May 2018. Our revenue growth during the Track Record Period demonstrated our ability to capitalise on our market position and take advantage of business opportunities arising from the growing PRC IVD market.

## OUR COMPETITIVE STRENGTHS

### We are a major market player in the PRC male fertility IVD market and well-positioned to further grow our business in China

We are specialised in the research and development, manufacture and sale of a wide range of IVD reagents in China. Our Group is particularly focused on the PRC male fertility IVD market. We ranked the third among all manufacturers of male fertility IVD reagents in China, having 14.3% share of this market in terms of medical institution purchase value in 2017, according to the CIC Report. We have also established our presence in the PRC IVD market segments of parasite antibody detection and EBV antibody detection.

Leveraging on our knowledge and experience as well as brand recognition, we are well-positioned to benefit from the steady growth, rising per capita income and increasing healthcare expenditures in the PRC healthcare industry. We have developed our product portfolio of fertility IVD reagents, with the largest number of products registered with the CFDA and Provincial FDAs among all manufacturers in 2017, according to the CIC Report. We have also registered 13 of our male fertility IVD reagents with the GDFDA as Class II medical devices and filed with the Shenzhen MSA in respect of the remaining 11 male fertility IVD reagents as Class I medical devices. The PRC male fertility IVD market, has important growth opportunities as driven by rising rate of infertility incidences, implementation of the universal two-child policy in early 2016, widespread acceptance of ART, as well as government support and favourable policies. Such market is expected to grow from RMB387.6 million in 2017 to RMB971.4 million in 2023 in terms of medical institution purchase value, representing a CAGR of 16.5%, according to the CIC Report. We believe our product portfolio of male fertility IVD reagents allows us to capture rising opportunities in that market.

### We develop our product portfolio and manufacture a variety of IVD reagents

We develop, manufacture and sell a portfolio of IVD reagents comprising male fertility IVD reagents, parasite antibody detection reagents and a EBV antibody detection reagent. Based on the clinical diagnostic uses, our male fertility IVD reagents are further categorised into sperm function test products, accessory genital glands test products, anti-sperm antibody test products and male reproductive tract infection test products. During the Track Record Period, we manufactured and sold 27 IVD reagents which comprised 24 male fertility IVD reagents, two parasite antibody detection reagents and one EBV antibody detection reagent. One of our parasite antibody detection reagents is among the only two liver fluke IVD reagents which the CFDA has approved for manufacture and sale in China up to the Latest Practicable Date.

Focusing on the safety and reliability of our products, we have implemented the quality management system and standard operating procedures in our production process which is conducted in compliance with the PRC-recognised manufacture and quality control standards. We obtained the certification from the GDFDA in respect of our existing manufacturing facilities in May 2016, which is subject to renewal every five years. During the Track Record Period, our revenue was primarily generated from the sales of our major products. Please refer to the paragraph headed "– Our Products – Our Major Products" in this section for details on our major products. With our proven record of product quality, safety and reliability, as well as our industry understanding and product know-how, we have continuously increased the sales volume of our male fertility IVD reagents, in particular the sales volume of our major products. Accordingly, revenue from the sales of our major products increased by RMB4.3 million, or by 26.8%, from RMB16.2 million for FY2015 to RMB20.5 million for FY2016, and further increased by RMB0.5 million, or by 2.2%, from RMB20.5 million for FY2016 to RMB21.0 million for FY2017. Further, such revenue increased by RMB620,000, or by 8.0%, from RMB7.7 million for the five months ended 31 May 2017 to RMB8.4 million for the five months ended 31 May 2018.

Our focus on industry development trends, as well as our understanding of the requirements of our customers and end users, also enable us to identify and capture market opportunities by launching new products ahead of our competitors. Moreover, the high costs and long lead time in the development and registration process of IVD reagents in the PRC provide a high market entry barrier, which also allows us to maintain our market leadership position in the PRC male fertility IVD reagent industry. For example, we have developed our male fertility IVD reagents, such as the sperm nucleus DNA integrity kit (精子核DNA完整性檢測試劑盒), spermatozoa acrosin activity quantitative assay kit (精子頂體酶活性定量檢測試劑盒) and seminal plasma PMN-elastase quantitative assay kit (精漿彈性硬蛋白酶定量檢測試劑盒), based on our familiarity with the market as well as our understanding of the demands from our customers and end users. After the launch of our products, the sales volume has continuously increased as a result of the increasing acceptance of customers and end users. Revenue from the sales of our sperm nucleus DNA integrity kits (精子核DNA完整性檢測試劑盒) increased by RMB725,000, or by 114.5%, from RMB633,000 for FY2015 to RMB1.4 million for FY2016. Further, such revenue increased by RMB1.3 million, or by 98.9%, from RMB1.4 million for FY2016 to RMB2.7 million for FY2017. Such revenue further increased by RMB154,000, or by 15.1%, from RMB1.0 million for the five months ended 31 May 2017 to RMB1.2 million for the five months ended 31 May 2018.

**Our sales and distribution network, coupled with our marketing strategies, strengthen our market position in the PRC male fertility IVD market**

We operate a sales and distribution network with a broad geographical reach of 25 provinces, autonomous regions and municipalities in China. As at the Latest Practicable Date, our sales, marketing and distribution functions were conducted through 21 sales and marketing personnel, and a network of over 100 distributors. We have devoted resources to communications with our customers and end users so that we are able to better understand their specific requirements, and we further educate them on the usages and characteristics of our products. Additionally, we sell auxiliary reproductive supplies and equipment which are normally used by our customers and end users in conjunction with, among others, our male fertility IVD reagents and/or the fertility IVD reagents of other manufacturers during infertility diagnosis processes. The provision of a combined solutions of IVD reagents, auxiliary reproductive supplies and equipment, as well as related services is one of our key strategies to cultivate and maintain our customer base. Moreover, we provide technical assistance to our direct sales customers as well as offer trainings to our sales force and

distributors so that they are able to provide professional support to our customers and end users. All of the above measures have helped us expand the end user base of our products, while also maintaining our existing customers. As a result of our continuous efforts to sell and market our male fertility IVD reagents, revenue from both direct sales to end customers and sales to distributors increased during the Track Record Period. We believe our sales and marketing model and extensive coverage of hospitals and medical institutions will further enhance market awareness of our products.

**Our proven track record in the development and commercialisation of male fertility IVD reagents differentiates us from our competitors**

Research and development capabilities are one of our long-term competitive strengths. We believe that the development and launch of proprietary products are important to our sustainable growth and future success. Our research and development team employs a market-driven approach for developing products based upon commercial potential and the likelihood of successful development, as well as improving the effectiveness and quality of our existing products. We ranked the first in terms of the number of male fertility IVD reagents registered with the CFDA and Provincial FDAs among all manufacturers in 2017, according to the CIC Report. During the Track Record Period, we obtained the medical device registration certificates in respect of 13 male fertility IVD reagents with the GDFDA. Furthermore, we have established a pipeline of product candidates to ensure a steady supply of new product launches. We currently have five pipeline products, including three pipeline products at various stages of clinical trials and two pipeline products in the research and development phase.

Our research and development capabilities have been well-recognised by the relevant government authorities. As at the Latest Practicable Date, we had a total of seven personnel in our research and development team who have been trained in immunology, biotechnology, biological engineering and biomedical engineering. We have participated in government-sponsored research and development projects, which demonstrates that our research and development capabilities are well recognised by the relevant government authorities. We have been recognised as a "High and New Technology Enterprise* (國家高新技術企業)" in the PRC since 2011. Please refer to the paragraph headed "– Research and Development" in this section for further details.

**We have a highly experienced management team with a track record of delivering new quality products, strong growth and profitability**

Our management team possesses extensive operational expertise and industry knowledge, which enable us to understand the needs of our customers and to consistently deliver new quality products. Mr. Zhang, our Executive Director, chairman of the Board and Controlling Shareholder, Mr. Chang, a director of Shenzhen Huakang and our Controlling Shareholder, and Mr. Zhang Chunguang, our Executive Director and chief executive officer, had held various senior management positions in the industry of medical devices prior to the establishment of our Group. We believe they possess the foresight and expertise to continue our successful expansion into the PRC male fertility IVD reagent market. Other members of our senior management team have an average of 16 years' experience in the PRC medical device and/or IVD reagent industry. Please refer to the section headed "Directors and Senior Management" in this document for further details.

Our senior management team has been with us for an average period of 11 years, and has established a proven track record in identifying market opportunities, executing business strategies, guiding our expansion into growth areas and increasing our Group's overall profitability. Their extensive experience in the PRC medical device industry is of vital importance to our business. We believe that the industry expertise, professional management skills and strong execution capability of our senior management team will help us to successfully formulate and implement our development strategies in the PRC male fertility IVD reagent industry.

## OUR STRATEGIES

### Further expand our product portfolio and improve our existing product offerings

We will continue to identify and evaluate new research and development projects, and systematically manage the progress of existing projects in order to maintain a pipeline of our products for further business growth. We will continuously expand our portfolio of IVD reagents through market-driven product development approach, with a focus on product candidates which address rapidly growing diagnostic needs of our customers and end users and have the potential for future commercialisation in the PRC male fertility IVD reagent market. Consistent with our brand images and product positioning, the new products will be fit within, or are supplemental to, our existing product portfolio. We plan to obtain the medical device registration certificates in respect of these new male fertility IVD reagents which employ new application techniques of flow cytometry (流式細胞法), biochemical enzyme (生化酶法) and chemiluminescence (化學發光), and then sell these new products to customers, after we complete the requisite phases of research and development, clinical trials and technical assessment.

In order to better meet the demands of our customers and end users for our product, we plan to further improve the testing methods and application techniques in respect of our existing male fertility IVD reagents. We plan to utilise HK$**[REDACTED]** from the net proceeds of the **[REDACTED]** in developing fully automated equipment so as to improve the efficiency of testing procedures for our male fertility IVD reagents. We will also utilise HK$**[REDACTED]** from the net proceeds of the **[REDACTED]** in developing new testing methods and application techniques which have relatively high sensitivity and specificity for testing and analysis at low costs. We believe the improvement of relevant testing methods and application techniques, as well as expansion of our product portfolio, will enable us to utilise our production capacity more effectively and increase return on investment in our business. We intend to utilise HK$**[REDACTED]** in aggregate of our net proceeds from the **[REDACTED]** in new product development and existing product modification, which include developing new IVD reagents and improving existing products for male fertility testing. Please refer to the section headed "Future Plans and **[REDACTED]**" in this document for further details.

### Strengthen our product research and development capabilities

We intend to continue to invest in our internal research and development to improve our existing products, as well as identify and evaluate new research and development projects. We expect that we will have four product development projects in relation to flow cytometric platform within the next three years. A preliminary research on the application of chemiluminescence (化學發光) technology in male fertility tests has been carried out. We plan to conduct further research for another 12 months on this subject. Moreover, the products, which are in conformity with the health, safety and environmental protection

standards under the applicable European directives, are granted with the Conformite Europeenne ("CE") certifications of European Union and can be sold within the European Economic Area. As part of our long-term product development plan, we plan to obtain the CE certifications in respect of our major products.

In order to strengthen our product research and development capability, we plan to expand our research and development team and hire approximately seven new personnel who have relevant background in product research and development. In addition, for the long-term development of our business, when suitable opportunities arise, we may collaborate with overseas partners which have relevant expertise and experience for joint research and development projects. We intend to provide training to our research and development personnel on the CE certification requirements, apply for the registration of ISO13485 certifications in respect of our major products, and carry out international joint research and development projects with overseas partners. Please refer to the section headed "Future Plans and **[REDACTED]**" in this document for further details.

**Continue to expand and consolidate our sales and distribution network in order to realise the market potential of our products**

We plan to enhance our market penetration and increase the market share of our existing products in the PRC male fertility IVD reagent industry, as well as to position ourselves to launch new products and expand our product portfolio through the improved efficiency and expansion of our sales force. As part of our expansion plan, we intend to hire additional sales and marketing personnel for the strategic locations in the PRC. We are seeking to further penetrate into currently uncovered hospitals, as well as new departments in the hospitals and medical institutions where we already have a coverage. We intend to utilise HK$**[REDACTED]** of our net proceeds from the **[REDACTED]** in participating in annual conferences of medical device manufacturers in the PRC, participating in national and local academic conferences on male reproduction and andrology, recruiting new marketing personnel and technical personnels, and providing our sponsorship to research and development projects at schools of andrology in the PRC. Please refer to the section headed "Future Plans and **[REDACTED]**" in this document for further details.

We plan to increase the coverage of hospitals and medical institutions by enhancing our penetration into cities in the PRC which our distribution network currently does not cover, and to engage additional distributors with the appropriate resources and professional marketing capabilities in the PRC. Moreover, we will continue to implement measures to further increase the efficiency of our internal sales and marketing efforts. In order to increase our sales productivity, we intend to take measures to better allocate required resources to hospitals and medical institutions, thereby managing our sales and marketing efforts more effectively. In addition, we plan to strengthen our sales and marketing efforts on new products, enhance our research on marketing strategies for our major products and increase our brand awareness, so as to lay out a more solid foundation for our sales.

**Continue to cultivate and recruit talented employees who are essential to our businesses**

The contributions of our experienced senior management and professional employees are critical to our success. We plan to continue to attract and train talented employees, including those in sales and marketing, research and development, manufacture, and general administration. We intend to continue to provide our managerial personnel and other key employees, particularly those in the functions of sales and marketing, as well as research and development, with compensation packages that we believe to be

competitive in the PRC healthcare industry. We intend to provide our talented and promising employees who have management potential with training and rotation programmes in order to help them develop professionally and enhance their work experience for their long-term career development with our Group. With our continued focus on the development of our human resources, we believe we will be successful in retaining and motivating our managerial, technical and other personnel and continue to attract more talented individuals.

**Develop our auxiliary reproductive supply business to better meet the demands of our customers and end users**

We sell auxiliary reproductive supplies and equipment which are normally used by our customers and end users in conjunction with, among others, our male fertility IVD reagents and/or the fertility IVD reagents of other manufacturers during infertility diagnosis processes. While continuing to focus on growing our core business of manufacture and sale of male fertility IVD reagents, we will also seek market opportunities for the development of our business relating to auxiliary reproductive supplies. In 2017, the PRC government promulgated a series of policies and implemented relevant measures for the development of domestically manufactured medical devices. For instance, the "Made in China 2025" strategy set out by the State Council recognises the sector of domestic medical devices with high performance of diagnosis and treatment to be one of the key industries for future development. The PRC government introduced measures to promote and incentivise the development of domestic medical equipment, such as upgrading the relevant standards in favour of domestic medical devices and requiring 30% of the hospitals to procure domestic medical devices. Such polices are expected to increase the demand for domestic medical devices which may lead to our increased sales of auxiliary reproductive supplies, given that most of the auxiliary reproductive supplies currently sold in China are imported from overseas. We believe our brand awareness and our position as a major market player in the PRC male fertility IVD reagent market can lay out a sound foundation for the introduction and promotion of our auxiliary reproductive supplies and equipment to customers. In the meantime, as our customers and end users of our male fertility IVD reagents also requires such auxiliary reproductive supplies and equipment for conducting infertility diagnosis process, our current sales and distribution network with a broad geographical reach in China and our strong customer base will also smooth our way for marketing and launching our auxiliary reproductive supplies and equipment in this market. Further, we can leverage on our existing research and development resources, as well as production capabilities, to facilitate our development of auxiliary reproductive supplies and equipment business.

Seizing on business opportunities arising from the implementation of favourable government policies as well as our competitive advantages, therefore, we plan to continue to sell auxiliary reproductive supplies to meet the demands of our customers and end users. When suitable opportunities arise, we may hire additional sales and marketing personnel to distribute quality auxiliary reproductive supplies, such as sperm washing medium and micromanipulator medium. We undertook a feasibility study in May 2018 to assess the key factors concerning our Group in relation to setting up production line of auxiliary reproductive supplies and equipment, namely, outlook and prospect of the PRC auxiliary reproductive supply market, supply of raw materials, relevant government policies, source of funds, required expertise and experience of our Group, allocation of human resource, potential risk control issues and financial benefits to the Group. We have also conducted market analysis with reference to our sales of auxiliary reproductive supplies during the Track Record Period and will continue to monitor and analyse the market demand and outlook of the PRC auxiliary reproductive supplies and equipment market in coming years. Based on the market feedback, in particular, whether the market would maintain the expected annual growth rate of over 15% in the coming

years, as well as the sales performance of our auxiliary reproductive supply business, we may construct the relevant production facilities for manufacturing. Specifically, provided that the market continues to grow at the current rate, we expect that once our Group's revenue derived from the sales of our auxiliary reproductive supplies and equipment for the year ending 31 December 2019 amounts to not less than RMB1.4 million, we will commence to construct the relevant production facilities with an expected total investment of approximately RMB6.3 million, among which approximately RMB**[REDACTED]** (or approximately HK$**[REDACTED]**) is expected to be financed by the net proceeds from the **[REDACTED]** and approximately RMB**[REDACTED]** (or approximately HK$**[REDACTED]**) is expected to be financed by the internal financial resources of our Group. Please refer to the section headed "Future Plans and **[REDACTED]**" in this document for further details.

We intend to utilise HK$**[REDACTED]** of our net proceeds from the **[REDACTED]** in developing the manufacture and sale of auxiliary reproductive supplies in the PRC. Please refer to the section headed "Future Plans and **[REDACTED]**" in this document for further details. From the long-term development perspective, through the manufacture and sale of auxiliary reproductive supplies, we expect to meet the growing demands of our customers and end users, as well as provide them a combined solution of IVD reagents, auxiliary reproductive supplies and related services, thereby enabling us to capture market opportunities and to strengthen our market position in the PRC male fertility IVD reagent industry.

Please refer to the section headed "Future Plans and **[REDACTED]**" in this document for further details on relevant timeframes and estimated amounts to be spent for the implementation of the above business strategies.

## OUR PRODUCTS

### Overview

Our Group is specialised in the research and development, manufacture and sale of IVD reagents. During the Track Record Period, we have not adopted any change in our business focus. Our IVD reagents are designed to aid the diagnosis of male infertility, Epstein-Barr virus (EBV) and parasite related diseases and conditions. Currently, our Group offers three categories of IVD reagents, namely, male fertility IVD reagents, parasite antibody detection reagents and an EBV antibody detection reagent. We have registered 13 of our male fertility IVD reagents with the GDFDA as Class II medical devices and filed with the Shenzhen MSA in respect of the remaining 11 male fertility IVD reagents as Class I medical devices. We have also registered our two parasite antibody detection reagents and the EBV antibody detection reagent with the CFDA as Class III medical devices. Our Group also sells auxiliary reproductive supplies and equipment produced by third party manufacturers, which are normally used by our customers and end users in conjunction with, among others, our male fertility IVD reagents and/or the fertility IVD reagents of other manufacturers during infertility diagnosis processes. Our product sales during the Track Record Period was not subject to seasonality. In addition, our Group has obtained registration certificates with the GDFDA as Class II medical devices in respect of eight quality control products which are used in conjunction with eight male fertility IVD reagents so as to control the quality of diagnostic testing results. Such quality control products are not for sale and are provided to our customers for free for uses in conjunction with the relevant male fertility IVD reagents upon their occasional requests. Further, we also registered six female fertility IVD reagents with the GDFDA as Class II medical devices, but we did not manufacture or sell these reagents during the Track Record Period.

The following table sets forth a breakdown of our revenue by product category for the periods indicated:

| | Year ended 31 December | | | | | | Five months ended 31 May | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2016 | | 2017 | | 2017 | | 2018 | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* *(unaudited)* | *%* | *RMB'000* | *%* |
| **IVD reagents** | | | | | | | | | | |
| **Male fertility IVD reagents** | | | | | | | | | | |
| Sperm function test products | 6,859 | 35.3 | 9,613 | 37.9 | 11,027 | 41.5 | 4,229 | 44.0 | 4,459 | 40.5 |
| Accessory genital glands test products | 4,402 | 22.6 | 5,801 | 22.8 | 4,483 | 16.9 | 1,691 | 17.6 | 1,925 | 17.5 |
| Male reproductive tract infection test products | 2,206 | 11.3 | 2,540 | 10.0 | 2,823 | 10.6 | 947 | 9.9 | 1,164 | 10.6 |
| Anti-sperm antibody test products | 2,628 | 13.5 | 3,124 | 12.3 | 2,638 | 9.9 | 1,075 | 11.2 | 889 | 8.0 |
| Others | 903 | 4.6 | 1,152 | 4.5 | 1,719 | 6.6 | 442 | 4.6 | 432 | 3.9 |
| **Subtotal of male fertility IVD reagents** | 16,998 | 87.3 | 22,230 | 87.5 | 22,690 | 85.5 | 8,384 | 87.3 | 8,869 | 80.5 |
| **Parasite antibody detection reagents** | 888 | 4.6 | 1,226 | 4.8 | 1,908 | 7.2 | 505 | 5.3 | 1,067 | 9.7 |
| **EBV antibody detection reagent** | 1,081 | 5.6 | 1,041 | 4.1 | 869 | 3.3 | 215 | 2.2 | 329 | 3.0 |
| **Subtotal of IVD reagents** | 18,967 | 97.5 | 24,497 | 96.4 | 25,467 | 96.0 | 9,104 | 94.8 | 10,265 | 93.2 |
| **Auxiliary reproductive supplies and equipment** | 489 | 2.5 | 913 | 3.6 | 1,074 | 4.0 | 502 | 5.2 | 747 | 6.8 |
| **TOTAL** | 19,456 | 100.0 | 25,410 | 100.0 | 26,541 | 100.0 | 9,606 | 100.0 | 11,012 | 100.0 |

IVD reagents are classified as medical devices under the relevant PRC regulations. In the PRC, medical devices are classified into three classes – Class I, Class II and Class III – based on the level of technology required for manufacture, the degree of risks associated with usages, as well as the extent of control needed to ensure the safety and effectiveness of medical devices. During the Track Record Period, our products comprise 11, 13 and three IVD reagents in Classes I, II and III, respectively. Please refer to the subsection headed "Regulatory Overview – PRC Laws and Regulations Relating to Medical Devices – Classification of Medical Devices" in this document for further details.

Our IVD reagents are mostly ready-made and in the form of liquid. Each of the reagents contains a variety of components and/or substances required for the diagnostic experiments. Most of the components are in the state of liquid, which can be used directly by end users. Primarily because the volatile properties of active ingredients in some components, in order to control and ensure the accuracy and stability of test results, such components are manufactured in the form of powder or lyophilised powder, and are to be dissolved in specific solutions before diagnostic experiments.

## Our Major Products

The following table sets forth a breakdown of our revenue for the periods indicated:

| | Year ended 31 December | | | | | | Five months ended 31 May | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2016 | | 2017 | | 2017 | | 2018 | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000 (unaudited)* | *%* | *RMB'000* | *%* |
| **MAJOR PRODUCTS** | | | | | | | | | | |
| **Male fertility IVD reagents** | | | | | | | | | | |
| ***Sperm function test products*** | | | | | | | | | | |
| Spermatozoa acrosin activity quantitative assay kit (精子頂體酶活性定量檢測試劑盒) | 5,914 | 30.4 | 7,679 | 30.2 | 7,987 | 30.1 | 3,068 | 31.9 | 3,068 | 27.9 |
| Sperm nucleus DNA integrity kit (精子核DNA完整性檢測試劑盒) | 633 | 3.2 | 1,358 | 5.4 | 2,701 | 10.2 | 1,018 | 10.6 | 1,172 | 10.6 |
| ***Accessory genital glands test products*** | | | | | | | | | | |
| Seminal plasma neutral alpha-glucosidase quantitative assay kit (精漿中性α-葡糖苷酶定量檢測試劑盒) | 2,321 | 11.9 | 3,055 | 12.0 | 2,014 | 7.6 | 691 | 7.2 | 831 | 7.5 |
| Seminal plasma zinc quantitative assay kit (精漿鋅定量檢測試劑盒) | 1,259 | 6.5 | 1,505 | 5.9 | 1,451 | 5.5 | 590 | 6.1 | 649 | 5.9 |
| ***Anti-sperm antibody test products*** | | | | | | | | | | |
| Spermatozoan surface antibody IgG mixed agglutination reaction kit (精子膜表面抗體IgG檢測試劑盒) | 2,628 | 13.5 | 3,124 | 12.3 | 2,639 | 9.9 | 1,075 | 11.2 | 889 | 8.1 |
| ***Male reproductive tract infection test products*** | | | | | | | | | | |
| Seminal plasma PMN-elastase quantitative assay kit (精漿彈性硬蛋白酶定量檢測試劑盒) | 1,496 | 7.7 | 1,582 | 6.2 | 1,840 | 6.9 | 612 | 6.4 | 743 | 6.8 |
| **Parasite antibody detection reagents** | | | | | | | | | | |
| Detection kit for IgG antibody to liver fluke (肝吸蟲IgG抗體檢測試劑盒) | 861 | 4.4 | 1,181 | 4.6 | 1,472 | 5.5 | 477 | 5.0 | 685 | 6.2 |
| **EBV antibody detection reagent** | | | | | | | | | | |
| Detection kit for VCA IgA antibody to EBV (EB病毒VCA抗體(IgA)檢測試劑盒) | 1,081 | 5.6 | 1,041 | 4.1 | 869 | 3.3 | 215 | 2.2 | 329 | 3.0 |
| **Major products subtotal** | **16,193** | **83.2** | **20,525** | **80.7** | **20,973** | **79.0** | **7,746** | **80.6** | **8,366** | **76.0** |
| **NON-MAJOR PRODUCTS** | | | | | | | | | | |
| Other male fertility IVD reagents (1) | 2,747 | 14.1 | 3,927 | 15.5 | 4,059 | 15.3 | 1,330 | 13.9 | 1,517 | 13.7 |
| Detection kit for IgG antibody to Schistosoma japonicum (日本血吸蟲IgG抗體檢測試劑盒) | 27 | 0.2 | 45 | 0.2 | 435 | 1.6 | 28 | 0.3 | 382 | 3.5 |
| Auxiliary reproductive supplies and equipment | 489 | 2.5 | 913 | 3.6 | 1,074 | 4.1 | 502 | 5.2 | 747 | 6.8 |
| **Non-major products subtotal** | **3,263** | **16.8** | **4,885** | **19.3** | **5,568** | **21.0** | **1,860** | **19.4** | **2,646** | **24.0** |
| **TOTAL** | **19,456** | **100.0** | **25,410** | **100.0** | **26,541** | **100.0** | **9,606** | **100.0** | **11,012** | **100.0** |

*Note:*

(1) Our other male fertility IVD reagents during the Track Record Period primarily consisted of 18 types of products, such as seminal plasma fructose quantitative assay kit (精漿果糖定量檢測試劑盒), peroxidase staining (過氧化物酶染色液) and seminal plasma citric acid quantitative assay kit (精漿檸檬酸定量檢測試劑盒).

The following table sets forth the selected information relating to our major products:

| Product category | Major product | Function description | Issuing authority | Registration certificate number | Expiry date of registration certificate | Registration certificate category | Price range during the Track Record Period[1] |
|---|---|---|---|---|---|---|---|
| Male fertility IVD reagents | Spermatozoa acrosin activity quantitative assay kit (精子頂體酶活性定量檢測試劑盒) | Sperm function test product – detecting spermatozoa acrosin activities in human sperms to assess relevant functions | GDFDA | Yuexiezhuzhun 20152400616* (粵械注准 20152400616) | 5 July 2020 | Class II | RMB400 to RMB2,000 |
| | Sperm nucleus DNA integrity kit (精子核DNA完整性檢測試劑盒) | Sperm function test product – assessing the integrity of sperm nucleus DNA | GDFDA | Yuexiezhuzhun 20152401259* (粵械注准 20152401259) | 10 November 2020 | Class II | RMB600 to RMB2,945 |
| | Seminal plasma neutral alpha-glucosidase quantitative assay kit (精漿中性α-葡萄糖苷酶定量檢測試劑盒) | Accessory genital glands test product – detecting the amount of seminal plasma neutral alpha, or glucosidase, in human sperms to assess epididymal secretory function | GDFDA | Yuexiezhuzhun 20152400611* (粵械注准 20152400611) | 5 July 2020 | Class II | RMB300 to RMB3,267 |
| | Seminal plasma zinc quantitative assay kit (精漿鋅定量檢測試劑盒) | Accessory genital glands test product – detecting the amount of seminal plasma zinc in human sperms to assess prostate function | GDFDA | Yuexiezhuzhun 20152400613* (粵械注准 20152400613) | 5 July 2020 | Class II | RMB150 to RMB1,300 |

*Note:*

(1) We price our products based on a number of factors. As there are mark-ups from manufacturers' ex-factory prices to end users' purchasing prices during the process of distribution of IVD products, the selling prices of our products through direct sales are higher than those of our products sold to distributors. Other factors which might be taken into consideration for pricing our products include the selling prices of comparable or similar products of our competitors in relevant regions. As such, the price range of each major product includes different prices of relevant products depending on sales channels and/or sales regions.

| Product category | Major product | Function description | Issuing authority | Registration certificate number | Expiry date of registration certificate | Registration certificate category | Price range during the Track Record Period[1] |
|---|---|---|---|---|---|---|---|
| | Spermatozoan surface antibody IgG mixed agglutination reaction kit (精子膜表面抗體IgG檢測試劑盒) | Anti-sperm antibody test product – detecting the amount of spermatozoan surface antibody IgG in human sperms to assess immunological infertility | GDFDA | Yuexiezhuzhun 20152400610* (粵械注准 20152400610) | 5 July 2020 | Class II | RMB200 to RMB1,200 |
| | Seminal plasma PMN-elastase quantitative assay kit (精漿彈性硬蛋白酶定量檢測試劑盒) | Male reproductive tract infection test product – detecting the amount of seminal plasma PMN-elastase in human sperms to assess reproductive tract infections | GDFDA | Yuexiezhuzhun 20152400612* (粵械注准 20152400612) | 5 July 2020 | Class II | RMB960 to RMB4,656 |
| Parasite antibody detection reagents | Detection kit for IgG antibody to liver fluke (肝吸蟲IgG抗體檢測試劑盒) | Detecting IgG antibody in blood serum or plasma to assess liver fluke infection | CFDA | Guoxiezhuzhun 20173401117* (國械注准 20173401117) | 27 June 2022 | Class III | RMB300 to RMB800 |
| EBV antibody detection reagent | Detection kit for VCA IgA antibody to EB virus (EB病毒VCA抗體(IgA)檢測試劑盒) | Detecting EB virus in blood serum or plasma to assess infection | CFDA | Guoxiezhuzhun 20163400260* (國械注准 20163400260) | 3 February 2021 | Class III | RMB260 to RMB605 |

*Note:*

(1) We price our products based on a number of factors. As there are mark-ups from manufacturers' ex-factory prices to end users' purchasing prices during the process of distribution of IVD products, the selling prices of our products through direct sales are higher than those of our products sold to distributors. Other factors which might be taken into consideration for pricing our products include the selling prices of comparable or similar products of our competitors in relevant regions. As such, the price range is mainly attributed to the differences in sales channels and sales regions for each of the products sold.

***Male Fertility IVD Reagents (男性不育系列檢測試劑)***

IVD testing methods are widely used in male fertility tests, which mainly comprise sperm function test, anti-sperm antibody test, accessory genital glands function test, sex hormone test and others. During the Track Record Period, we manufactured and sold 24 male fertility IVD reagents, six of which were our major products, to over 80 hospitals and medical institutions as well as over 100 distributors in 22 provinces, autonomous regions and municipalities across China. We ranked the third among all manufacturers in the PRC male fertility IVD reagent market, having 14.3% share of this market in terms of medical institution purchase value in 2017, according to the CIC report.

All our male fertility IVD reagents are registered as Classes I or II medical devices, respectively, which provide hospital and medical institutions the diagnostic basis for clinical treatment. Our male fertility IVD reagents are widely used in medical institutions, especially in reproductive centres and andrology centres. Health care professionals use our products to conduct comprehensive assessments of male candidates' reproductive systems. The resulting clinical appearances may range from no sperm count, low sperm count, abnormal sperm morphology, low semen volume, to semen coagulation abnormalities.

Primarily based on the length of business relationships and sales order amounts with customers, the selling prices of our male fertility IVD reagents ranged from RMB5 to RMB12,000 per unit, which remained relatively stable, during the Track Record Period. The shelf life of our male fertility IVD reagents ranges from six to 24 months.

***Parasite Antibody Detection Reagents (寄生蟲系列檢測試劑)***

During the Track Record Period, we manufactured and sold two parasite antibody detection reagents to over 15 hospitals and medical institutions as well as over 50 distributors in more than 16 provinces, autonomous regions and municipalities across China.

Our parasitic antibody detection reagents comprise the detection kit for IgG antibody to liver fluke (肝吸蟲IgG抗體檢測試劑盒) and the detection kit for IgG antibody to Schistosoma japonicum (日本血吸蟲IgG抗體檢測試劑盒). Traditionally, the pathogen of parasite eggs in the stool of a patient has been used to detect liver fluke diseases. Such method is time consuming with a low level of accuracy and not effective for healthcare professionals to diagnose liver fluke diseases at an early stage. Compared to the traditional type of products, our parasitic antibody detection reagents detect the IgG antibody in a candidate's blood plasma, which have a higher level of diagnostic accuracy, with a shorter period of reaction time, which are more user-friendly and suitable for large-scale experiments. The product is mainly used in laboratories and physical examination departments of hospitals and medical institutions, disease prevention and control centres, as well as national or regional epidemiological survey organisations.

Primarily based on the length of business relationships and sales order amounts with customers, the selling prices of our parasite antibody detection reagents ranged from RMB60 to RMB1,000 per unit, which remained relatively stable, during the Track Record Period. The shelf life of the parasite antibody detection reagents is 12 months.

***EBV Antibody Detection Reagent (EB病毒檢測試劑)***

During the Track Record Period, we manufactured and sold one type of EBV antibody detection reagent to two hospital and medical institutions as well as over 20 distributors in 5 provinces and municipalities across China.

Our EBV antibody detection reagent is mainly used to detect EBV capsid antigen IgA antibody. EBV may directly cause nasopharyngeal carcinoma. The epidemics caused by nasopharyngeal carcinoma are often seen in the provinces of Guangdong, Fujian and Hainan, Guangxi autonomous region, as well as other southern regions of China. Currently the EBV testing is listed as one of the routine physical examinations in Guangdong province. Our EBV antibody detection reagent is mainly used in laboratories and physical examination departments of hospitals and medical institutions as well as third-party testing agencies.

Primarily based on the length of business relationships and sales order amounts with customers, the selling price of our EBV antibody detection reagent ranged from RMB260 to RMB605 per unit, which remained relatively stable, during the Track Record Period. The shelf life of the EBV antibody detection reagent is 12 months.

***Auxiliary Reproductive Supplies and Equipment (輔助生育用品和設備)***

In addition to the manufacture and sale of IVD reagents, we sold auxiliary reproductive supplies and equipment produced by third party manufacturers such as glass coverslip and sperm sample collection cup to over 20 hospitals and medical institutions and over 15 distributors in accordance with our customers' orders during the Track Record Period. Such supplies include reagents, consumables and a servicing workstation which are normally used by our customers and end users in conjunction with, among others, our male fertility IVD reagents and/or the fertility IVD reagents of other manufacturers during infertility diagnosis processes.

Primarily based on the length of business relationships and sales order amounts with customers, the selling prices of auxiliary reproductive reagents remained stable as RMB400 per unit, the selling prices of auxiliary reproductive consumables ranged from RMB0.1 to RMB95,000 per unit, and the selling price of equipment (including the assembly-line type of full-automatic enzyme-linked immunologic workstation (流水線式全自動酶聯免疫工作站)) ranged from RMB85,000 to RMB170,000 per unit, during the Track Record Period. The shelf life of auxiliary reproductive reagents ranges from 12 months to 24 months, and the service life of servicing workstation is normally for four million detection tests, subject to the assessment from the engineers.

Sperm sample collection cup

Glass coverslip

## SALES AND DISTRIBUTION

### Overview

We market and sell all our IVD reagents within China. We regularly visit and directly sell our products to hospitals and medical institutions. In addition, we sell our products to our distributors who, in turn, sell our products to hospitals and medical institutions, either directly or through their sub-distributors. During the Track Record Period, we sold our products to more than 80 hospitals and medical institutions as well as more than 100 distributors in China.

The following table sets forth a breakdown of our revenue from sales of our products, by sales channel and geographical location for the periods indicated:

| | Year ended 31 December | | | | | | Five months ended 31 May | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2016 | | 2017 | | 2017 | | 2018 | |
| | *RMB'000* | *% of total revenue* | *RMB'000* | *% of total revenue* | *RMB'000* | *% of total revenue* | *RMB'000* | *% of total revenue* | *RMB'000* | *% of total revenue* |
| **Direct sales** | | | | | | | | | | |
| Guangdong province | 6,203 | 31.9 | 8,119 | 32.0 | 7,935 | 29.9 | 3,356 | 34.9 | 3,066 | 27.9 |
| Guangxi autonomous region | 2,225 | 11.4 | 3,143 | 12.4 | 3,158 | 11.9 | 1,175 | 12.2 | 1,072 | 9.7 |
| Hunan province | 1,924 | 9.9 | 2,010 | 7.9 | 2,125 | 8.0 | 929 | 9.7 | 1,059 | 9.6 |
| Zhejiang province | 273 | 1.4 | 122 | 0.5 | 270 | 1.0 | 120 | 1.3 | 34 | 0.3 |
| Others[(1)] | 387 | 2.0 | 503 | 2.0 | 850 | 3.2 | 157 | 1.6 | 419 | 3.8 |
| **Sub-Total** | 11,012 | 56.6 | 13,897 | 54.8 | 14,338 | 54.0 | 5,737 | 59.7 | 5,650 | 51.3 |
| **Sales to distributors[(2)]** | | | | | | | | | | |
| Guangdong province | 2,239 | 11.5 | 2,603 | 10.2 | 2,940 | 11.1 | 819 | 8.6 | 1,184 | 10.8 |
| Shandong province | 1,081 | 5.6 | 1,510 | 5.9 | 2,487 | 9.4 | 627 | 6.5 | 535 | 4.9 |
| Beijing | 3,566 | 18.3 | 5,336 | 21.0 | 2,424 | 9.1 | 1,296 | 13.5 | 1,784 | 16.2 |
| Guangxi autonomous region | 456 | 2.3 | 520 | 2.0 | 558 | 2.1 | 223 | 2.3 | 357 | 3.2 |
| Others[(3)] | 1,102 | 5.7 | 1,544 | 6.1 | 3,794 | 14.3 | 904 | 9.4 | 1,502 | 13.6 |
| **Sub-Total** | 8,444 | 43.4 | 11,513 | 45.2 | 12,203 | 46.0 | 3,869 | 40.3 | 5,362 | 48.7 |
| **TOTAL** | 19,456 | 100.0 | 25,410 | 100.0 | 26,541 | 100.0 | 9,606 | 100.0 | 11,012 | 100.0 |

*Notes:*

(1) Others mainly include the provinces of Shanxi, Hubei, Fujian, Heilongjiang, Jiangxi, Liaoning and Sichuan, as well as the municipalities of Shanghai, Tianjin and Chongqing.

(2) The breakdown by geographical location for sales to distributors are categorised based on the registered/ business addresses of our distributors.

(3) Others mainly include the provinces of Fujian, Guizhou, Hainan, Henan, Hubei, Heilongjiang, Hunan, Jiangsu, Jiangxi, Liaoning, Sichuan, Yunan, Xinjiang and Zhejiang, as well as the municipalities of Shanghai and Tianjin.

The following table sets forth a breakdown of our revenue from the sales of our products, by sales channels and product category for the periods indicated:

| | Year ended 31 December | | | | | | Five months ended 31 May | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2016 | | 2017 | | 2017 | | 2018 | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000 (unaudited)* | *%* | *RMB'000* | *%* |
| **Direct sales** | | | | | | | | | | |
| Male fertility IVD reagents | 10,450 | 53.7 | 13,066 | 51.4 | 13,269 | 50.0 | 5,318 | 55.3 | 5,127 | 46.5 |
| Parasite antibody detection reagents | 98 | 0.5 | 243 | 1.0 | 365 | 1.4 | 144 | 1.5 | 131 | 1.2 |
| EBV antibody detection reagent | – | – | – | – | – | – | – | – | 6 | 0.1 |
| Auxiliary reproductive supplies and equipment | 464 | 2.4 | 588 | 2.3 | 704 | 2.6 | 275 | 2.9 | 386 | 3.5 |
| **Sub-total** | 11,012 | 56.6 | 13,897 | 54.7 | 14,338 | 54.0 | 5,737 | 59.7 | 5,650 | 51.3 |
| **Sales to distributors** | | | | | | | | | | |
| Male fertility IVD reagents | 6,548 | 33.6 | 9,164 | 36.1 | 9,421 | 35.5 | 3,066 | 31.9 | 3,742 | 34.0 |
| Parasite antibody detection reagents | 790 | 4.1 | 983 | 3.8 | 1,543 | 5.8 | 361 | 3.8 | 936 | 8.5 |
| EBV antibody detection reagent | 1,081 | 5.6 | 1,041 | 4.1 | 869 | 3.3 | 215 | 2.2 | 323 | 2.9 |
| Auxiliary reproductive supplies and equipment | 25 | 0.1 | 325 | 1.3 | 370 | 1.4 | 227 | 2.4 | 361 | 3.3 |
| **Sub-total** | 8,444 | 43.4 | 11,513 | 45.3 | 12,203 | 46.0 | 3,869 | 40.3 | 5,362 | 48.7 |
| **TOTAL** | 19,456 | 100.0 | 25,410 | 100.0 | 26,541 | 100.0 | 9,606 | 100.0 | 11,012 | 100.0 |

Our sales channels for product categories vary. As we focus on developing male fertility IVD reagents, we train up our sales team to be familiar with our products, as well as to possess the relevant technical expertise and sales capacity, which enable them to sell to our direct customers hospitals and reproductive centres, or to our distributors effectively. Most of our EBV antibody detection reagent and most of our parasite antibody detection reagents are sold to our distributors, in order to expand the reach of such products to hospitals across different regions in a cost-efficient manner.

As at the Latest Practicable Date, our sales and marketing department consisted of 21 trained employees. Our sales and marketing department is primarily responsible for preparing bidding materials and participating in centralised procurement processes of public hospitals and medical institutions in the PRC, communicating with our customers to better understand the usages and characteristics of our products, reviewing the qualifications of distributors, collecting the feedback from our customers and end users, providing customer services and collecting accounts receivables.

### Direct Sales

We sell our products primarily through our own sales and marketing department directly to hospitals and medical institutions in China. The table below sets out a breakdown of our revenue by geographical region for the periods indicated:

| | Year ended 31 December | | | | | | Five months ended 31 May | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2016 | | 2017 | | 2017 | | 2018 | |
| | *RMB'000* | *% of total revenue* | *RMB'000* | *% of total revenue* | *RMB'000* | *% of total revenue* | *RMB'000* | *% of total revenue* | *RMB'000* | *% of total revenue* |
| Guangdong province | 6,203 | 56.3 | 8,119 | 58.4 | 7,935 | 55.4 | 3,356 | 58.5 | 3,066 | 54.3 |
| Guangxi autonomous region | 2,225 | 20.2 | 3,143 | 22.6 | 3,158 | 22.0 | 1,175 | 20.5 | 1,072 | 19.0 |
| Hunan province | 1,924 | 17.5 | 2,010 | 14.5 | 2,125 | 14.8 | 929 | 16.2 | 1,059 | 18.7 |
| Zhejiang province | 273 | 2.5 | 122 | 0.9 | 270 | 1.9 | 120 | 2.1 | 34 | 0.6 |
| Others[(1)] | 387 | 3.5 | 503 | 3.6 | 850 | 5.9 | 157 | 2.7 | 419 | 7.4 |
| **TOTAL** | **11,012** | **100.0** | **13,897** | **100.0** | **14,338** | **100.0** | **5,737** | **100.0** | **5,650** | **100.0** |

*Note:*

(1) Others mainly include the provinces of Shanxi, Hubei, Fujian, Heilongjiang, Jiangxi, Liaoning and Sichuan, as well as the municipalities of Shanghai, Tianjin and Chongqing.

Our sales and marketing department is responsible for developing our overall marketing strategies, participating in the centralised procurement processes of public hospitals and medical institutions in the PRC, as well as developing our relationships and brand awareness among our customers. We help them better understand the usages and characteristics of our products in laboratory experiments and clinical trials. We also attend product exhibitions and academic conventions on a regular basis to promote our products. In addition, our sales and marketing department coordinates with various other departments in developing our marketing strategies and works closely with our research and development department and production department during our product development process in order to ensure that our new products cater for customers' demands. We generally do not enter into long-term contracts with hospitals and medical institutions.

Procurement of medical devices by public hospitals and medical institutions in China is subject to a procurement process that mainly involves tendering of relevant product by manufacturers and distributors. Our Directors confirmed that all of our direct sales customers are subject to a procurement process, and have their own supplier lists. The tenders are categorised into two main types, which are (i) operated and organised by provincial or municipal governments, or third-party agencies which they appoint and (ii) operated and organised by the public hospitals or medical institutions themselves or third party agencies they appoint. The tender process at the provincial or municipal level is in principle conducted once every one to three years, while the tender process operated and organised by individual public hospitals or medical institutions themselves may not be conducted on a regular basis. The winning manufacturers and distributors are included in the supplier lists of public hospitals and medical institutions which may procure the relevant

products from these manufacturers onwards. Such supplier lists are usually reviewed by some of the public hospitals and medical institutions periodically, whereas some other public hospitals and medical institutions do not make any change to their supplier lists unless a major compliant issue arises. During the Track Record Period, we participated in numerous tenders of different natures, namely, tenders by hospitals or by individual products or a mix of both. Although the success rate cannot be quantified due to the various natures of tenders, the majority of our tender submissions were successful. We believe that our success in the tenders during the Track Record Period was attributable to our proven track record as a major market player in the industry segment, our quality products, our experience and understanding in the tendering procedures, as well as the fact that we usually submitted tenders to the target hospitals and medical institutions that we had established stable relationships, or maintained good and long-term communications with.

All of our direct sales to customers are conducted in RMB and normally settled by bank remittances. We arrange the delivery of our products to end users and bear the delivery costs.

**Distribution**

The following table sets forth a breakdown of our revenue by geographical location (based on the registered/business addresses of our distributors) for the periods indicated:

| | Year ended 31 December | | | | | | Five months ended 31 May | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2016 | | 2017 | | 2017 | | 2018 | |
| | *RMB'000* | *% of total revenue* | *RMB'000* | *% of total revenue* | *RMB'000* | *% of total revenue* | *RMB'000* | *% of total revenue* | *RMB'000* | *% of total revenue* |
| Guangdong province | 2,239 | 26.5 | 2,603 | 22.6 | 2,940 | 24.1 | 819 | 21.2 | 1,184 | 22.1 |
| Shandong province | 1,081 | 12.8 | 1,510 | 13.1 | 2,487 | 20.4 | 627 | 16.2 | 535 | 10.0 |
| Beijing[1] | 3,566 | 42.2 | 5,336 | 46.3 | 2,424 | 19.9 | 1,296 | 33.5 | 1,784 | 33.3 |
| Guangxi autonomous region | 456 | 5.4 | 520 | 4.5 | 558 | 4.6 | 223 | 5.8 | 357 | 6.6 |
| Others[2] | 1,102 | 13.1 | 1,544 | 13.5 | 3,794 | 31.0 | 904 | 23.3 | 1,502 | 28.0 |
| **TOTAL** | **8,444** | **100.0** | **11,513** | **100.0** | **12,203** | **100.0** | **3,869** | **100.0** | **5,362** | **100.0** |

*Note:*

(1) The revenue from sales to our distributors in Beijing decreased from RMB5.3 million for FY2016 to RMB2.4 million for FY2017, mainly because (i) we adopted sales and distribution strategies to diversify our customer base; and (ii) out of the revenue of RMB2.9 million for FY2017 from Beijing Dahua, which was one of our largest customers during the Track Record Period, RMB1.0 million was generated through our sales to its agent located in Zhejiang province, which is categorised under "Others" in the table above, during the second half of FY2017.

(2) Others mainly include the provinces of Fujian, Guizhou, Hainan, Henan, Hubei, Heilongjiang, Hunan, Jiangsu, Jiangxi, Liaoning, Sichuan, Yunan, Xinjiang and Zhejiang, as well as the municipalities of Shanghai and Tianjin.

As at 31 December 2015, 31 December 2016, 31 December 2017, we established business relationships with 111, 133, 149 distributors, respectively, to distribute our products in the PRC. The table below sets out the movement in the number of our distributors during the Track Record Period:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2015** | **2016** | **2017** |
| Distributors at the beginning of the year | 99 | 111 | 133 |
| Addition of new distributors | 39 | 47 | 55 |
| Termination or non-renewal of existing distributors | (27) | (25) | (39) |
| Net change in distributors | 12 | 22 | 16 |
| Distributors at the end of the year | 111 | 133 | 149 |

Our relationship with distributors is not that of a principal and an agent. To the best knowledge of our Directors, during the Track Record Period and up to the Latest Practicable Date, all of our distributors were Independent Third Parties which we had no ownership in or control over, and none of our distributors were wholly-owned or majority controlled by our current or former employees, except otherwise disclosed in this document.

Our Directors confirmed that a shareholder of one of our distributors during the Track Record Period, Nanjing Xinyue Biotechnology Company Limited* (南京新月生物科技有限公司) ("**Nanjing Xinyue**"), was an employee of Shenzhen Huakang's branch in Nanjing ("**Nanjing Branch**"). The Nanjing Branch, which used to sell hepatitis diagnostic reagents in Jiangsu Province, was deregistered in July 2008. Nanjing Xinyue was established in May 2008 and commenced business relationship with Shenzhen Huakang in November 2008. To our Directors' best knowledge and belief, after our reasonable enquiries, Nanjing Xinyue and its ultimate beneficial owners were Independent Third Parties during the Track Record Period and up to the Latest Practicable Date. Our Directors confirmed that during the Track Record Period, the sales to Nanjing Xinyue had been on normal commercial terms, which were fair and reasonable to our Group and consistent with the terms offered to other distributors that are Independent Third Parties. Our sales to Nanjing Xinyue accounted for 0.5%, 0.5%, 0.3% and 0.4% of our total revenue for FY2015, FY2016, FY2017 and five months ended 31 May 2018.

With the extensive network with our distributors, we benefit from our distributors' established distribution channels and resources, which save costs that would otherwise be required to establish an extensive sales network across the PRC, and increase the effectiveness of launching and selling our products in our target markets within a short period of time. We typically grant our distributors the right to distribute our IVD reagents within designated geographical areas. The mix of direct sales customers and distributors for a certain sales region depends on our assessment of local market capacities and potential growth, target end users' demands for our IVD reagents as well as coverage of existing direct sales customers. With a view to our long-term sustainable growth, we evaluate from time to time whether a local market has the capacity to support any additional distributor without causing unnecessary competition against existing direct sales customers nearby or adverse impact on their sales performance. Our Directors confirm that, notwithstanding

that our distributors may serve certain regions where we conduct direct sales, there had been no such circumstance under which our sales team and our distributors sold products to the same hospital or medical institution during the Track Record Period.

Our Directors believe there is no standard distributorship model, or any industry norm of distribution network, among IVD reagent manufacturers in the PRC. The distributorship model of each IVD reagent manufacturer covers certain sales channels through which its products are sold and distributed, with a particular focus on certain sales channels where it intends to build up its competitive advantage in the PRC IVD reagent market. Our Directors confirmed that we have a lower dependence of multi-layer downstream distributors and may benefit from consolidating our market position with the implementation of the two-invoice system in China. For details, please refer to the subsection headed "Industry Overview – The PRC IVD Market – Market Size and Outlook" in this document.

***Standard Distribution Agreement***

In order to strengthen the management of our distributors, we generally enter into standard distribution agreements with our distributors which are subject to renewal on an annual basis. Our distributors are required to comply with the terms and conditions of our standard distribution agreement. The principal and general terms of our standard distribution agreements are as follows:

| **Principal terms** | **Summary** |
|---|---|
| Term of agreements | Generally one year which is renewed annually. |
| Exclusive distribution rights | Each distributor is authorised to sell our specific products to selected hospitals and medical institutions, or exclusively within a defined geographical area, so as to avoid competition among different distributors. |
| Payment and credit terms | Cash on delivery or a credit term ranging from one to three months. All of our sales to distributors are conducted in RMB and settled by bank remittances. |
| Pricing | We do not provide our distributors with suggested prices for our products. |
| Sales reports and estimates | Our distributors are required to record the sales and purchase levels and submit such information to us on a quarterly or yearly basis. |
| Sales returns | We do not accept returns of products from our distributors after two months of sale except for defective or damaged products. |
| Delivery costs | We bear delivery costs if the orders placed by our distributors do not exceed three or four times per month. |
| Termination | We are entitled to terminate our distribution agreements, when the distributors fail to meet the relevant annual sales targets, or they sell or promote our products in the regions other than those designated by us. |

During the Track Record Period, we did not enter into distribution agreement with certain distributors which only purchased a small quantity of products from us or which only commenced business relationships with us. The aggregate sales from these distributors represented 15.9%, 12.6%, 2.4% and 7.2% of our total sales to our distributors for FY2015, FY2016, FY2017 and five months ended 31 May 2018, respectively.

There is no minimum purchase amounts to be purchased by our distributors. We generally have annual target requirements of product sales for our distributors. When a distributor meets our pre-set sales target in a certain year, we renew the distribution agreement with the distributor for the right to sell our specific products exclusively to selected hospitals and medical institutions, or within a defined geographical area, in the next year. We recognise our sales to distributors upon product delivery when the significant risks and rewards of product ownership being transferred to them.

We set the selling prices of our products for our distributors by taking into account factors such as the tender prices with hospitals, our production costs and transportation costs, our gross profit margins, and the estimated profit margins for our distributors. Our distributors also go through tender process before selling our products to public hospitals and medical institutions, and the tender process also creates pricing pressure on our distributors.

***Management of Distributors***

We select distributors with proven distribution abilities, familiarity with their own target markets, financial strength and good credit records. All our distributors must possess valid approvals and/or licences which include, among others, the Permit for Medical Device Operation (Class III medical devices) (醫療器械經營許可證) (第三類) and the Class II Medical Device Operating Record Certificate (第二類醫療器械經營備案憑證) before they could sell our products in the PRC. We also take into account a series of factors, including the coverage of their distribution channels, warehousing facilities, delivery capabilities, operating and business management capabilities.

To assist our distributors to sell our products to hospitals, we prepare the product information and documentation required by hospitals and medical institutions which include, among others, our authorisation letters to distributors and medical device registration certificates of our products. Other services we provided to our distributors include the provision of training in connection with our products, and participation in presentations to potential end users procured by our distributors. Moreover, we require our sales representatives to conduct regular on-site inspections on our distributors and their customers, and keep track of any potential cannibalisation or competition among our distributors. To our Directors' best knowledge and belief, after our reasonable enquiries, we were not aware of any material cannibalisation or competition among our distributors within the same sales region during the Track Record Period.

To monitor the inventory levels and sales activities of our distributors relating to our products, our sales representatives had telephone communications with our distributors from time to time to understand their respective sales performance and business plans. To enhance our monitoring measures, we (i) conduct background checks on the distributors to understand their business scales, product offerings and customer networks; (ii) request the distributors to submit their monthly inventory reports for our inspection; and (iii) conduct phone discussions and face-to-face communications.

We believe that our policy of not accepting product returns from our distributors save for defects in product quality, together with other measures in connection with management of our distributors, reduced the risk of channel stuffing by our distributors. During the Track Record Period and up to the Latest Practicable Date, we are not aware of any risks or occurrence of channel-stuffing of our products.

In order to strengthen our internal control over the legal and regulatory compliance of our distributors, we have adopted the policy with implementing measures:

- to provide our existing distributors with our written policies and guidelines that they must follow in selling our products, failing which we will have the right to terminate their appointments as our distributors, without penalty on our part, and hold them liable for any resulting loss suffered by us. Such written policies and guidelines explicitly require that the distributors must comply with all applicable laws and regulations, in particular anti-corruption laws and regulations. We require our distributors to undertake not to engage in any corrupt conduct, including giving kickbacks to hospitals, medical institutions or any of their employees to facilitate sales of our products, engaging in improper actions to obtain commercial advantage or opportunity, and bribing public officials when selling our products;

- to vet the qualifications and track records of our distributors by reviewing their licences, permits and records, non-compliance records, fraudulent act or other misconduct on an annual basis;

- where practicably, to obtain feedback from the relevant hospitals and/or medical institutions half-yearly on the performance and services of our distributors, and whether they have engaged in any activity that may not comply with applicable anti-corruption laws and regulations;

- to require our sales and marketing team to communicate with our distributors from time to time and understand how they conduct daily operations, in order to monitor their compliance with relevant anti-corruption laws and regulations;

- to set up a hotline for our staff, distributors and customers to report their complaints or concerns. If we have any concern over the conduct of a distributor, we promptly request the responsible distributor to look into the matter and rectify its conducts, if the concern turns out to be valid;

- to evaluate our distributors each year based on a number of criteria including their compliance with the terms of distributorship agreements and their sales performance;

- to obtain their sales records for checking on a sampling basis, to conduct site visits, where practicable, and to check whether they may be involved in legal and/or regulatory noncompliance or misconduct when selling our products; and

- to terminate our relationship with any distributor which is suspected of conducting activities that do not comply with the applicable anti-corruption laws and regulations.

We review the performance of our distributors on a annual basis. Based on the results of our review, we may terminate the engagement of our distributors if such distributors underperform, consistently fail to meet the pre-set sales targets, or breach any of our written policies and guidelines. In accordance with our ongoing policy on distributor management, we terminated our contractual relationships with 27, 25 and 39 distributors during FY2015, FY2016 and FY2017, respectively; due to performance reasons and as part of our efforts to consolidate our distribution network. For further details of the movement in the number of our

distributors during the Track Record Period, please refer to the paragraph headed "– Sales and Distribution – Distribution" in this section. The total amount of revenue derived from the sales of our products by these distributors accounted for 2.0%, 3.8% and 2.3% of our total revenue to our distributors in the financial year prior to their termination for FY2015, FY2016 and FY2017, respectively.

The discontinued distributors deal with their unsold inventories, if any, on their own. We generally do not accept any product return from any of our distributors after two months following the sale, except for defective or damaged products. For further details of our product return policies, please refer to the paragraph headed "– Sales and Distribution – Product Return and Warranty" in this section.

**Credit Management Policy**

We grant a credit period of one to six months to some direct sales customers and distributors after delivery of our IVD reagents. Before we grant credit sales to customers, we perform individual credit evaluations on them. Based on our credit evaluation results, we classify the customers into different credit categories. We apply appropriate sales policy to customers in different credit categories. Our credit terms with our customers vary depending on a number of factors, including their historical payments, business performance, market positions, significant financial difficulties of debtors, possibility of default or delinquent payments, as well as probability of filing for bankruptcy by debtors or being subject to a financial reorganisation.

We regularly make credit assessment on our customers and adjust their credit rankings where necessary. Our finance department conducts credit checks and make credit assessments on our customers regularly. Such credit checks include credit searches through financial institutions, industry searches, internal investigations and onsite investigations. We also adjust our credit management policy from time to time according to product sales proposals and market conditions.

We reassess the lifetime expected credit loss ("**ECL**") for trade receivables at the end of each reporting period since initial recognition in accordance to HKFRS 9 starting from 1 January 2018 to ensure that adequate impairment losses are made for significant increases in the likelihood or risk of a default occurring. In order to minimise credit risk, our management has delegated our finance team to develop and maintain our Group's credit risk grading to categorise exposures according to the degree of risk of default of the debtors. Our Group's exposure and the credit quality of our counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. As such, our Directors consider that our Group's exposure to credit risk is significantly reduced.

We measure the lifetime ECL on a collective basis for portfolios of trade receivables that share similar economic risk characteristics. The ECL on these financial assets are estimated using an analysis of trade receivables by risk type of customers (i.e. high risk, normal risk and low risk) with reference to the types of customers (i.e. distributors and direct sales customers), capital size, repayment history and length of business relationship and apply a weighted average estimate of the credit losses within the relevant risk type. The weighted average loss rates is determined based on our Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

We have maintained long-term relationships with our customers whose repayment history has been good. During the Track Record Period, we did not experience any material customer credit deterioration or significant bad debts. An allowance for doubtful debts of RMB176,000, RMB250,000, RMB473,000 and RMB276,000 was provided for FY2015, FY2016, FY2017 and five months ended 31 May 2018, respectively. A reversal of allowance of doubtful debts of RMB138,000, RMB135,000, RMB51,000 and RMB396,000 was also made for FY2015, FY2016, FY2017 and five months ended 31 May 2018 respectively. The net effect of the allowance for doubtful debts provided and the reversal of allowance made on trade receivables of RMB38,000, RMB115,000 and RMB422,000 was charged to other losses in the statement of profit or loss for FY2015, FY2016 and FY2017, respectively, and RMB120,000 was charged to other gains in the statement of profit or loss for the five months ended 31 May 2018. In order to minimise credit risk, our finance department determines customer credit limits which are subject to our general manager's final approvals. We also make efforts to ensure that we have made follow-up actions timely to recover overdue debts. Please refer to the subsection headed "Financial Information – Net Current Assets – Trade Receivables" in this document for further details on subsequent settlement of the accounts receivable balance.

During the Track Record Period, we sold our products, either directly or through distributors, to hospitals and medical institutions. Our sales to direct sales customers was unaffected by the implementation of the two-invoice policy. In the meantime, our sales to distributors was also not materially affected by the implementation of the two-invoice policy, primarily because that to the best knowledge of our Directors, our products sold to our distributors during the Track Record Period were then mainly sold directly to hospitals and medical institutions by our distributors. Therefore, our Directors believe that the implementation of the two-invoice policy did not have any material effect on our Group during the Track Record Period. Please refer to the subsection headed "Industry Overview – The PRC IVD Market" in this document for further details of the two-invoice policy.

**Top Five Customers**

For FY2015, FY2016, FY2017 and five months ended 31 May 2018, our five largest customers, comprising hospitals and distributors, contributed revenue that accounted for 41.7%, 44.7%, 37.0% and 37.1%, respectively, and our sales to the largest customer accounted for 18.2%, 20.9%, 11.0% and 15.8%, respectively, of our total revenue for the same periods. We have established business relationship ranging from three to 13 years with our top five customers during the Track Record Period.

***FY2015***

| Customer | Principal business | Major products sold by our Group to the customers | Principal business relationship | Years of business relationship with our Group as at the Latest Practicable Date | Revenue | Percentage of our total revenue | Credit and payment terms |
|---|---|---|---|---|---|---|---|
| | | | | | *(RMB'000)* | *(%)* | |
| Beijing Dahua | Retailer and service provider relating to medical devices, including IVD reagents and other equipment | Male fertility IVD reagents<br>• Sperm function test products<br>• Accessory genital glands test products<br>• Anti-sperm antibody test products | Distributor | 10 | 3,542 | 18.2 | COD, by bank remittance |
| Customer A | Hospital specialised in reproductive and genetic diseases | Male fertility IVD reagents<br>• Sperm function test products | Direct sales customer | 13 | 1,629 | 8.4 | Payment within three months after product delivery, by bank remittance |
| Third Affiliated Hospital of Guangzhou Medical University* (廣州醫科大學附屬第三醫院) ("**Third Affiliated Hospital**") | Hospital specialised in healthcare, disease prevention, rehabilitation and scientific research | Male fertility IVD reagents<br>• Sperm function test products<br>• Accessory genital glands test products | Direct sales customer | 12 | 1,300 | 6.7 | Payment within six months after product delivery, by bank remittance |
| Jinan Huakang Biomedical Engineering Company Limited* (濟南華康生物醫學工程有限公司) ("**Jinan Huakang**") | Retailer selling medical devices, prescription and non-prescription drugs, chemical reagents, antibiotics and biological products | Male fertility IVD reagents<br>• Sperm function test products | Distributor | 13 | 852 | 4.4 | COD, by bank remittance |
| Customer B | Hospital specialised in maternity care, genetic disease screening and family planning services | Male fertility IVD reagents<br>• Sperm function test products<br>• Accessory genital glands test products<br>• Anti-sperm antibody test products | Direct sales customer | 8 | 791 | 4.0 | COD, by bank remittance |
| | | | | | 8,114 | 41.7 | |

***FY2016***

| Customer | Principal business | Major products sold by our Group to the customers | Principal business relationship | Years of business relationship with our Group as at the Latest Practicable Date | Revenue | Percentage of our total revenue | Credit and payment terms |
|---|---|---|---|---|---|---|---|
| | | | | | *(RMB'000)* | *(%)* | |
| Beijing Dahua | See above | Male fertility IVD reagents<br>• Sperm function test products<br>• Accessory genital glands test products<br>• Anti-sperm antibody test products | Distributor | 10 | 5,318 | 20.9 | COD, by bank remittance |
| Third Affiliated Hospital | See above | Male fertility IVD reagents<br>• Sperm function test products<br>• Accessory genital glands test products | Direct sales customer | 12 | 1,996 | 7.9 | Payment within six months after product delivery, by bank remittance |
| Customer A | See above | Male fertility IVD reagents<br>• Sperm function test products | Direct sales customer | 13 | 1,485 | 5.8 | Payment within three months after product delivery, by bank remittance |
| Jinan Huakang | See above | Male fertility IVD reagents<br>• Sperm function test products | Distributor | 13 | 1,285 | 5.1 | COD, by bank remittance |
| Customer B | See above | Male fertility IVD reagents<br>• Sperm function test products<br>• Accessory genital glands test products<br>• Anti-sperm antibody test products | Direct sales customer | 8 | 1,265 | 5.0 | COD, by bank remittance |
| | | | | | 11,349 | 44.7 | |

***FY2017***

| Customer | Principal business | Major products sold by our Group to the customers | Principal business relationship | Years of business relationship with our Group as at the Latest Practicable Date | Revenue | Percentage of our total revenue | Credit and payment terms |
|---|---|---|---|---|---|---|---|
| | | | | | *(RMB'000)* | *(%)* | |
| Beijing Dahua | See above | Male fertility IVD reagents<br>• Sperm function test products<br>• Accessory genital glands test products<br>• Anti-sperm antibody test products | Distributor | 10 | 2,911 *(Note)* | 11.0 | COD, by bank remittance |
| Jinan Huakang | See above | Male fertility IVD reagents<br>• Sperm function test products<br>• Accessory genital glands test products | Distributor | 13 | 2,234 | 8.4 | COD, by bank remittance |
| Third Affiliated Hospital | See above | Male fertility IVD reagents<br>• Sperm function test products<br>• Accessory genital glands test products | Direct sales customer | 12 | 1,708 | 6.4 | Payment within six months after product delivery, by bank remittance |
| Customer A | See above | Male fertility IVD reagents<br>• Sperm function test products | Direct sales customer | 13 | 1,591 | 6.0 | Payment within three months after product delivery, by bank remittance |
| Customer C | Hospital with comprehensive medical services | Male fertility IVD reagents<br>• Sperm function test products<br>• Accessory genital glands test products<br>• Anti-sperm antibody test products | Direct sales customer | 3 | 1,389 | 5.2 | COD, by bank remittance |
| | | | | | 9,833 | 37.0 | |

*Note:* Representing the aggregate amount of our sales to Beijing Dahua amounting to RMB1.9 million for FY2017 and the agent of Beijing Dahua amounting to RMB1.0 million during the period.

***For the five months ended 31 May 2018***

| Customer | Principal business | Major products sold by our Group to the customers | Principal business relationship | Years of business relationship with our Group as at the Latest Practicable Date | Revenue | Percentage of our total revenue | Credit and payment terms |
|---|---|---|---|---|---|---|---|
| | | | | | *(RMB'000)* | *(%)* | |
| Beijing Dahua | See above | Male fertility IVD reagents<br>• Sperm function test products<br>• Accessory genital glands test products<br>• Anti-sperm antibody test products | Distributor | 10 | 1,742 | 15.8 | COD, by bank remittance |
| Customer A | See above | Male fertility IVD reagents<br>• Sperm function test products | Direct sales customer | 13 | 713 | 6.4 | Payment within three months after product delivery, by bank remittance |
| Customer C | See above | Male fertility IVD reagents<br>• Sperm function test products<br>• Accessory genital glands test products<br>• Anti-sperm antibody test products | Direct sales customer | 3 | 667 | 6.1 | COD, by bank remittance |
| Jinan Huakang | See above | Male fertility IVD reagents<br>• Sperm function test products<br>• Accessory genital glands test products | Distributor | 13 | 535 | 4.9 | Payment within six months after product delivery, by bank remittance |
| Third Affiliated Hospital | See above | Male fertility IVD reagents<br>• Sperm function test products<br>• Accessory genital glands test products | Direct sales customer | 12 | 431 | 3.9 | Payment within six months after product delivery, by bank remittance |
| | | | | | 4,088 | 37.1 | |

To the best knowledge and belief of our Directors after making reasonable enquiries, none of our Directors and any Shareholder who own 5% or more of the issued share capital of our Company as at the Latest Practicable Date, nor their respective associates, have any interest in any of our five largest customers during the Track Record Period, all of which are Independent Third Parties.

**Product Pricing**

We price our products based on a number of factors, such as sales channels, cost of sales, expected demands of customers and end users for our products, selling prices of comparable or similar products of our competitors, sales regions and government policies. We do not offer sales discount on our products.

Our products were sold directly or through distributors to hospitals and medical institutions in the PRC during the Track Record Period. Most of the public hospitals and medical institutions make their purchases of medical devices through a centralised procurement process. Such centralised procurement process affects our selling prices to public hospitals, and also indirectly affects the prices at which we sell our products to our distributors.

**Product Return and Warranty**

We generally do not accept product return from our customers after two months of sales unless the products are found to be defective or damaged. For FY2015, FY2016, FY2017 and five months ended 31 May 2018, the total amount of product return by our customers was RMB60,000, RMB96,000, RMB32,000 and RMB86,000, respectively. During the Track Record Period, there was no product recall or product liability claim, nor product return, due to product quality or product defect.

**RESEARCH AND DEVELOPMENT**

We believe that research and development is critical to the sustainable growth of our business. We are devoted to our product research and development and have been recognised as a "High and New Technology Enterprise*（國家高新技術企業）" in the PRC since 2011. During the Track Record Period, we completed research and development projects on 15 male fertility IVD reagents. For FY2015, FY2016, FY2017 and the five months ended 31 May 2018, we incurred research and development expenditures of RMB2.6 million, RMB1.7 million, RMB2.2 million and RMB1.2 million, respectively. It took us around 20 months from conducting feasibility studies to applying for registrations with relevant government authorities for our major male fertility IVD reagents. All of our research and development projects were successfully completed during the Track Record Period. We currently conduct our research and development activities through our internal research and development department, which is mainly focused on developing products that address growing diagnostic needs in the areas of male infertility, as well as improving the effectiveness and quality of our existing products. Our research and development department consisted of seven personnel as at the Latest Practicable Date, who have obtained bachelor degrees in biotechnology, biological engineering and biomedical engineering, respectively. Further, we plan to hire research and development personnel with bachelor degrees or above in the above fields in the future, depending on the relevant roles and responsibilities of the personnel. Please refer to the subsection headed "Financial Information – Discussion of Selected Items from the Consolidated Statements of Profit or Loss and Other Comprehensive Income –

Research and Development Expenses" for details of the primary components of our research and development expenses and our accounting policy as to when our research and development expenses are expensed or capitalised.

Our Group has developed in-house all of our self-manufactured IVD reagents which up to the Latest Practicable Date comprised 32 male fertility IVD reagents, two parasite antibody detection reagents, one EBV antibody detection reagent and six female fertility IVD reagents. The following table sets forth the number of the IVD reagents registered by our Group by product category and class of medical devices up to the Latest Practicable Date:

| **Product category** | **Number of products developed** | **Registration authority** | **Class of medical device** |
|---|---|---|---|
| Male fertility IVD reagents and related quality control products | 21 [(1)] | GDFDA | Class II |
| | 11 | Shenzhen MSA | Class I |
| Parasite antibody detection reagents | 2 | CFDA | Class III |
| EBV antibody detection reagent | 1 | CFDA | Class III |
| Female fertility IVD reagents | 6 | GDFDA | Class II |

*Note:*

(1) Such products comprise the following: (i) 13 male fertility IVD reagents sold by our Group during the Track Record Period; and (ii) eight quality control products for uses in conjunction with eight of our male fertility IVD reagents to assure the quality of diagnostic testing results. The quality control products are not for sale in general and are provided to our customers for free for uses in conjunction with the relevant male fertility IVD reagents upon their occasional request.

We carried out research and development for most of our major male fertility IVD reagents, namely, spermatozoa acrosin activity quantitative assay kit (精子頂體酶活性定量檢測試劑盒), seminal plasma neutral alpha-glucosidase quantitative assay kit (精漿中性α-葡萄糖苷酶定量檢測試劑盒), seminal plasma zinc quantitative assay kit (精漿鋅定量檢測試劑盒), spermatozoan surface antibody IgG mixed agglutination reaction kit (精子膜表面抗體IgG檢測試劑盒), seminal plasma PMN-elastase quantitative assay kit (精漿彈性硬蛋白酶定量檢測試劑盒), from January 2003 to August 2004. We developed the sperm nucleus DNA integrity kit (精子核DNA完整性檢測試劑盒) from November 2010 to February 2012. We generally spent around 20 months from conducting feasibility study to applying for registration with relevant government authorities for our major male fertility IVD reagents, each costed RMB250,000 to RMB350,000. Further, we developed our detection kit for VCA IgA antibody to EBV (EB病毒VCA抗體(IgA)檢測試劑盒) from February 2004 to October 2005 and detection kit for IgG antibody to liver fluke (肝吸蟲IgG抗體檢測試劑盒) from January 2011 to November 2012, which costed RMB400,000 and RMB490,000, respectively.

At present our research and development is focused on the product development of male fertility IVD reagents, and our main development directions comprise the following:

- *Assessment of sperm functions.* We have applied flow cytometry (流式細胞法) as our major technology platform to assess sperm functions. Currently, the development of IVD reagents for assessing sperm nuclear DNA integrity is about to enter the clinical research stage. We expect to further conduct our research projects on the feasibility of applying flow cytometry in other IVD reagents in the near future.

- *Introduction of the chemiluminescence (化學發光) technology into male fertility tests.* Chemiluminescence technology is currently applied in our auxiliary reproductive reagents, namely anti-mullerian hormone detection kit, Compared to the existing application techniques used in our male fertility IVD reagents, chemiluminescence technology provides a higher level of accuracy and shorter reaction time. A preliminary research has been carried out in applying the chemiluminescence technology in our male fertility IVD reagents. We carried out our preliminary selection and evaluation of the supporting test platform, as well as raw materials, for chemiluminescence in the second half of 2017. We intend to purchase equipment for research and development of the supporting test platform in the future.

- *Product enhancement.* We continuously improve the quality of our existing products to meet the needs of our customers and end users, through enhancing the existing testing methods and application techniques. For instance, we are trying to apply the ELISA biochemical method to our IVD reagents, and optimising their testing procedures and reagent compositions of our seminal plasma neutral alpha-glucosidase quantitative assay kit (精漿中性α-葡萄糖苷酶定量檢測試劑盒) and seminal plasma fructose quantitative assay kit (精漿果糖定量檢測試劑盒). We have completed the initial design, trial manufacture and third-party testing of the two products and are about to enter the clinical research stage.

## PRODUCTION

### Our Production Facilities

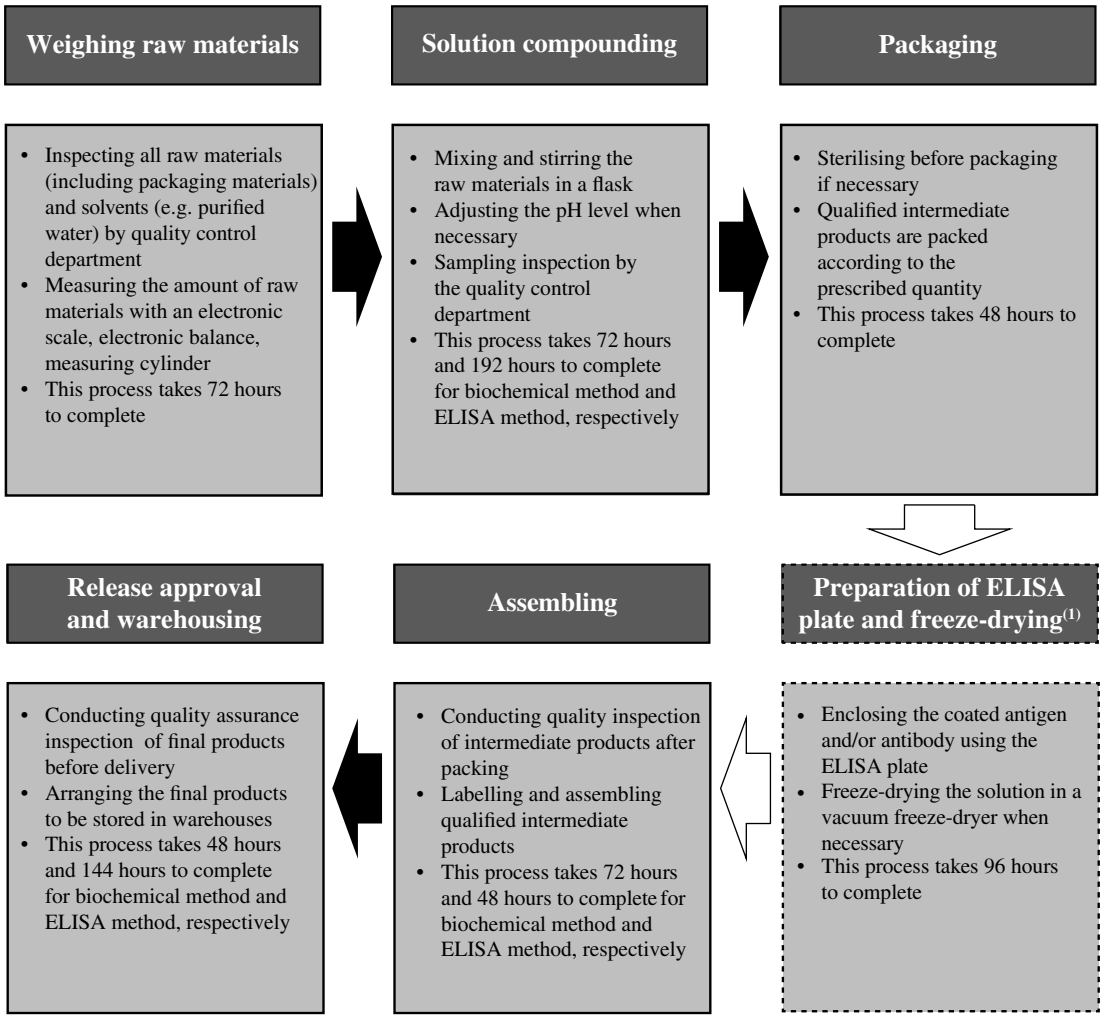
We currently carry out manufacture activities in the production plant with a total gross floor area of approximately 3,707 sq.m., which is located at an industrial zone designated for high and new technological enterprises in Shenzhen, Guangdong province, China. For details of our production plant, please refer to the paragraph headed "Land and Properties" in this section. Our production equipment include, among others, electronic balance, automatic package machine, freeze dryer and biological safety cabinets, centrifuge and ultra pure water machine.

Our production line and manufacturing facilities are strictly in compliance with the CFDA requirements and standards in respect of manufacture of medical devices. The relevant authorities have issued regulations and guidelines from time to time to ensure that medical devices are manufactured consistently in accordance with quality standards for their intended uses. Our existing manufacturing facilities have been certified by the GDFDA since 23 May 2016. The certification is subject to renewal every five years.

For further details, please refer to the paragraph headed "– Legal and Compliance – Licences and Permits" in this section.

## Production Process

We manufacture our IVD reagents with two major production methods, namely biochemical method and ELISA method. The diagram below summarises the major steps of our production process:




*Note:*

(1) This step is only applicable to the manufacture of ELISA products.

## PRODUCTION CAPACITIES

The table below sets out the information on the production capacity and utilisation rate of our production line in respect of our major products for FY2015, FY2016, FY2017 and the five months ended 31 May 2018:

| | Year ended 31 December | | | Five months ended 31 May |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| Designed capacity *(No. of diagnostic experiments:'000)*[(1)] | 1,848 | 1,866 | 1,861 | 788 |
| Production volume *(No. of diagnostic experiments:'000)*[(2)] | 1,031 | 1,360 | 1,303 | 614 |
| Utilisation rate[(3)] | 55.8% | 72.9% | 70.0% | 77.9% |

*Notes:*

(1) Our designed production capacity in respect of a period is calculated based on number of production personnel X designed production rate X one eight-hour working shift per day X number of days during each period when our manufacturing facilities were in operation, during such period. For FY2015, FY2016, FY2017 and the five months ended 31 May 2018, our manufacturing facilities were in operation for 237 days, 239 days, 237 days and 97 days, respectively.

(2) We plan our production volume of IVD reagents and adjust product mix before the beginning of each month during the period. The designed production rate may not be a constant variable throughout the period.

(3) Utilisation rate is derived from dividing our actual production volume for each period by designed capacity of the same period.

We maintain and service our manufacturing facilities on a regular basis to ensure efficient production without any unexpected interruption. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any significant production interruption due to equipment failure or breakdown, raw material shortages, power interruptions, fire or labour disputes.

### Logistics Management

We deliver finished products to our customers in Shenzhen. For customers located outside Shenzhen, we engage logistics service providers for the delivery of finished products from our warehouse to our customers. We do not bear any risk for damage to our products after such products have reached customers' designated warehouses. Moreover, we entrust qualified couriers for transporting cold chain management medical devices based on factors such as product quantity, distance and temperature requirements and in accordance with the relevant laws and regulations.

### Quality Management

We believe that an effective quality management system is critical to ensure the quality of our products and maintaining our reputation and success. We are required to adhere to the quality standards specified in our medical device manufacturing permit issued by the GDFDA.

We have established a systematic quality management system and standard operating procedures for our quality control and assurance functions. Our quality management department consists of quality assurance division and quality control division led by two managers, respectively. The quality assurance division is responsible for formulating and implementing procedures under our quality management system in accordance with the CFDA requirements and that our product supply chain and production processes are in compliance with stipulated standards and procedures. The quality control division is primarily responsible for the inspection of incoming raw materials and finished products, as well as reviewing the stability of samples. As at 31 May 2018, our quality management department division consisted of 5 employees, most of whom have relevant educational backgrounds and experience in biotechnology or pharmacy. We also conduct regular trainings so that our dedicated quality managers understand the regulatory requirements applicable to the operation of our production facilities. New employees at our production facilities receive trainings pertinent to their job duties, which cover topics such as medical device regulations, microbiological science, immunology, biochemistry, production safety knowledge, requirements, as well as procedures and protocols relating to quality control.

In order to satisfy the CFDA standards and requirements, we have established a systematic documentation system on quality management, which we believe helps us minimise risks of potential quality issues. We undertake quality inspections and document our quality control procedures at different stages of our production process from the procurement of raw materials to delivery of our products to customers.

Our quality assurance division receives feedback from our customers and handles any complaints with regard to the quality of our products. Quality complaints, both verbal and written, are documented and investigated pursuant to standard procedures. We regularly review and analyse the feedback received. Upon receipt of a complaint, we conduct investigations and ensure necessary measures are taken. We keep record of customers' feedback for up to five years. We had not encountered any material complains on product quality or any material product returns as a result of quality issue, during the Track Record Period and up to the Latest Practicable Date.

## SUPPLIERS AND RAW MATERIALS

We procure over 180 types of raw materials for the production of IVD reagents as well as packaging materials for the packaging of our products. We purchase major raw materials which were produced in the PRC or overseas, such as biological materials (including antibodies, antigens and proteins) and chemical reagents, from suppliers located in the PRC.

We do not adopt a centralized procurement system so as to maintain a flexible and efficient procurement process. We manage the inventory level of raw materials by monitoring our production activities and customers' demand, taking into consideration our production plan, research and development needs, procurement lead time of raw materials, as well as production lead time of our products. We maintain an inventory level of two to three months' supply of raw materials so as to control our production cost. We

select our suppliers based on various factors, including their product and service quality, reputation and business scales. Our suppliers allow us to return any raw materials which are contaminated or damaged. During the Track Record Period, we did not experience any return of raw materials due to quality problems, or any shortage or delay in the delivery of raw materials which had a material adverse effect on our production operations or performance. During the Track Record Period, we did not encounter any material disputes with our suppliers.

It takes within two to six weeks from the relevant dates of purchase orders until most of our suppliers deliver raw materials to our production facilities at their expenses. We pay deposits, which can serve as partial payment for the goods procured, to some of our suppliers before the goods are delivered. Some of our suppliers may deliver raw materials to us without requesting advance payments.

The raw materials required for the manufacture of our products are readily available in the market in abundant supply. Moreover, we have alternative sources for our major raw materials that can provide us with substitutes with comparable quality and prices. Although we do not enter into any long-term agreement with our suppliers, we have established long-term and stable relationships with our major suppliers. The purchase prices of our raw materials are primarily based on the prevailing market prices for raw materials of same or similar quality. Fluctuations in raw material costs have not had any material impact on our business during the Track Record Period. We have not experienced any difficulty at a material level in maintaining the reliable supply of quality raw materials during the Track Record Period. We are generally able to pass on fluctuations of increases in raw material prices to our customers.

For a sensitivity analysis of impact of hypothetical fluctuations in raw material costs and staff costs on our gross profit, as well as the relevant break-even analysis, during the Track Record Period, please refer to the subsection headed "Financial Information – Factors Affecting Our Results of Operations – Costs of Raw Materials and Staff Costs" in this document.

**Top Five Suppliers**

For FY2015, FY2016, FY2017 and five months ended 31 May 2018, our purchases from our five largest suppliers accounted for 67.6%, 70.6%, 66.0% and 61.1%, of our total purchases for the respective periods, and our largest supplier accounted for 26.9%, 31.0%, 31.8% and 32.1%, respectively, of our total purchases for the same periods. We have established business relationship ranging from one to 13 years with our five largest suppliers during the Track Record Period.

The tables below set out information of our top five suppliers for the periods indicated.

***FY2015***

| Supplier | Principal business | Principal items supplied to our Group | Years of business relationship with our Group as at the Latest Practicable Date | Purchase amount | Percentage of our total purchase | Credit and payment terms |
|---|---|---|---|---|---|---|
| | | | | *(RMB'000)* | *(%)* | |
| Guangzhou Jinbo Biotechnology Limited Company* (廣州今搏生物科技有限公司) ("**Guangzhou Jinbo**") | Wholesaler of IVD products | Raw materials | 8 | 799 | 26.9 | Payment within 30 days after delivery of goods, by bank remittance |
| Guangzhou Jiaside Biotechnology Limited Company* (廣州嘉斯德生物科技有限公司) ("**Guangzhou Jiaside**") | Wholesaler of experimental equipment and biotechnology products | Raw materials, consumables and packaging materials | 8 | 513 | 17.3 | Payment within 30 days after delivery of goods, by bank remittance |
| Supplier A | Retailer of chemical reagents and provider of biotechnology development and promotion services | Raw materials | 4 | 400 | 13.5 | Payment on delivery by bank remittance |
| Supplier B | Service provider of biological reagent technology and retailer of laboratory instrument | Raw materials, consumables and packaging materials | 4 | 169 | 5.7 | Payment within one month after delivery of goods, by bank remittance |
| Supplier C | Manufacturer of plastic products | Raw materials and packaging materials | 13 | 123 | 4.2 | Payment on delivery |
| | | | | 2,004 | 67.6 | |

***FY2016***

| Supplier | Principal business | Principal items supplied to our Group | Years of business relationship with our Group as at the Latest Practicable Date | Purchase amount | Percentage of our total purchase | Credit and payment terms |
|---|---|---|---|---|---|---|
| | | | | *(RMB'000)* | *(%)* | |
| Guangzhou Jinbo | See above | Raw materials | 8 | 1,182 | 31.0 | Payment within 30 days after delivery of goods, by bank remittance |
| Guangzhou Jiaside | See above | Raw materials and consumables | 8 | 651 | 17.1 | Payment within 30 days after delivery of goods, by bank remittance |
| Supplier A | See above | Raw materials | 4 | 356 | 9.3 | Payment on delivery by bank remittance |
| Yantai Aidekang Biotechnology Limited Company* (烟台艾德康生物科技有限公司) | Manufacturer of medical devices | Consumables | 4 | 253 | 6.6 | Payment on delivery, by telegraphic transfer |
| Supplier B | See above | Raw materials, consumables and packaging materials | 4 | 250 | 6.6 | Payment within one month after delivery of goods, by bank remittance |
| | | | | 2,692 | 70.6 | |

***FY2017***

| Supplier | Principal business | Principal items supplied to our Group | Years of business relationship with our Group as at the Latest Practicable Date | Purchase amount | Percentage of our total purchase | Credit and payment terms |
|---|---|---|---|---|---|---|
| | | | | *(RMB'000)* | *(%)* | |
| Guangzhou Jinbo | See above | Raw materials | 8 | 1,086 | 31.8 | Payment within 30 days after delivery of goods, by bank remittance |
| Guangzhou Jiaside | See above | Raw materials and consumables | 8 | 587 | 17.2 | Payment within 30 days after delivery of goods, by bank remittance |
| Supplier A | See above | Raw materials | 4 | 270 | 7.9 | Payment within 1 month after delivery of goods, by bank remittance |
| Guangzhou Kangrun Biological Product Development Limited Company* (廣州市康潤生物製品開發有限公司) | Wholesaler of auxiliary reproductive supplies and equipment | Auxiliary reproductive supplies and equipment | 2 | 164 | 4.8 | Payment on delivery by bank remittance |
| Supplier C | See above | Raw materials and packaging materials | 13 | 146 | 4.3 | Payment on delivery by bank remittance |
| | | | | 2,253 | 66.0 | |

***For the five months ended 31 May 2018***

| Supplier | Principal business | Principal items supplied to our Group | Years of business relationship with our Group as at the Latest Practicable Date | Purchase amount | Percentage of our total purchase | Credit and payment terms |
|---|---|---|---|---|---|---|
| | | | | *(RMB'000)* | *(%)* | |
| Guangzhou Jiaside | See above | Raw materials and consumables | 8 | 516 | 32.1 | Payment within 30 days after delivery of goods, by bank remittance |
| Yantai Aidekang Biotechnology Limited Company* (烟台艾德康生物科技有限公司) | See above | Consumables | 4 | 154 | 9.6 | Payment on delivery, by telegraphic transfer |
| Supplier D | Supplier of reagent consumables and instruments | Raw materials | 1 | 134 | 8.4 | Payment on delivery by bank remittance |
| Supplier A | See above | Raw materials | 4 | 90 | 5.6 | Payment on delivery by bank remittance |
| Supplier C | See above | Raw materials and packaging materials | 13 | 86 | 5.4 | Payment on delivery by bank remittance |
| | | | | 980 | 61.1 | |

To the best knowledge and belief of our Directors after making reasonable enquiries, none of our Directors and any Shareholder who own more than 5% of the issued share capital of our Company as at the Latest Practicable Date, nor their respective associates, have any interest in any of our top five suppliers during the Track Record Period, all of which are Independent Third Parties.

**Reliance on our Top Two Suppliers**

The aggregate purchases of raw materials from our Group's top two suppliers for FY2015, FY2016 and FY2017, Guangzhou Jinbo and Guangzhou Jiaside, together (the "**Top Two Suppliers**"), accounted for 44.2%, 48.1%, 49.0% and 32.1% of our Group's total purchases for FY2015, FY2016, FY2017 and the five months ended 31 May 2018, respectively. The Top Two Suppliers are engaged in the wholesale and retail of a wide range of biotechnology products and services. The Top Two Suppliers were the sales agents of raw materials branded Sigma-Aldrich ("**Sigma Products**") in the PRC. We have registered Sigma Products with the relevant governmental authority for the production of our male fertility IVD reagents. The Top Two Suppliers have a common individual shareholder ("**Common Shareholder**"), who holds 50% equity interest in each of the Top Two Suppliers. The Common Shareholder currently acts as the legal representative, managing director and general manager of Guangzhou Jinbo and as the supervisor of Guangzhou Jiaside. Our Group has not entered into any long-term agreements or has been committed to any minimum purchase amount, with either of the Top Two suppliers. To our Directors' best knowledge and belief, after our reasonable enquiries, the Common Shareholder is an Independent Third Party during the Track Record Period and up to the Latest Practicable Date.

For risks relating to our reliance on our Top Two Suppliers, please refer to the subsection headed "Risk Factors – Risks Relating to Our Business – Our top two suppliers for FY2015, FY2016 and FY2017 accounted for over 32.1% of our total purchases throughout the Track Record Period".

In order to reduce reliance on the Top Two Suppliers, we plan to reduce the proportion of purchases from them as compared to our Group's total purchases. Our Directors expect that the aggregate amount of purchases of Sigma Products from the Top Two Suppliers would not exceed 50.0% and 40.0% of our total purchases for the years ending 31 December 2018 and 31 December 2019, respectively. We do not and will not rely on the Top Two Suppliers for the supply of Sigma Products. In addition, we have not been committed to any minimum purchase with the Top Two Suppliers. The Sigma Products with same specifications can be purchased from a large number of alternative suppliers. According to the CIC Report, there are hundreds of suppliers of Sigma Products in the PRC male fertility IVD reagent market. Our Directors are of the view, and CIC concurs, that there are sufficient suppliers in the market which can supply Sigma Products with same specifications, quality and quantity at comparable prices and in a timely manner. Our Directors consider that it is not difficult to replace our Top Two Suppliers due to the large number of available suppliers in the market. Furthermore, the PRC male fertility IVD reagent market is expected to grow from RMB387.6 million in 2017 to RMB971.4 million in 2023 in terms of medical institution purchase value, representing a CAGR of 16.5%, according to the CIC Report. Based on the above considerations and the prospect of industry, our Directors confirm that our purchases from the Top Two Suppliers which are expected to demonstrate a decreasing proportion of our Group's total would not have any adverse effect on our business operations or financial performance after the **[REDACTED]**.

**Inventory**

Our inventory primarily consists of finished products which comprise our finished IVD reagents and auxiliary reproductive supplies for trading, as well as production materials which include raw materials, consumables and other packaging materials. We maintain an inventory level of two to three months' supply of our raw materials which varies according to the demand of our customers, sales and production plans

after taking into account, among other things, procurement lead time of raw materials, as well as production lead time of our products. We also maintain an inventory level of at least one month's supply of finished goods.

We have established an inventory management system that monitors each stage of the manufacturing process. Our warehousing personnel are responsible for inspection, warehousing, storage and distribution of production materials and finished products. All production materials and finished products are stored in different areas in our warehouse according to their storage condition requirements, properties, usages and batch numbers. Our warehousing personnel regularly check warehouses and records to ensure consistency among raw materials, finished products, purchase orders and delivery orders. Results of stock-take are compiled to generate an inventory record, which is used to assess our inventory control measures and costs.

We have also adopted management policies in handling and storing our raw materials, especially those hazardous chemicals. Our quality management department and warehouse personnel are responsible for regular stock-taking of those hazardous chemicals at least on a monthly basis. All hazardous chemicals are stored in the warehouses which are under temperature control, and equipped with fire extinguishers and other protective equipment. Our production department is required to obtain advance approvals from our management for distribution and use of hazardous chemicals. The warehouse personnel take records for storage, distribution, usage and report any emergency incidents in case of any theft, loss and misuse of those hazardous chemicals.

For FY2015, FY2016, FY2017 and five months ended 31 May 2018, our average inventory turnover days were 159, 112, 99 and 101, respectively. We conduct regular checks on the quality and expiry date of each batch of our inventory and write off raw materials and finished products that are obsolete or expired in accordance with our internal guidelines of production storage. During the Track Record Period, we had no inventories which were written off.

## AWARDS AND CERTIFICATIONS

During the Track Record Period and up to the Latest Practicable Date, we had received the following major awards and certifications in recognition of our achievements:

| Year | Awards/Certificates | Awarding authority |
|---|---|---|
| 2016 | High and New Technology Enterprise Certificate of Shenzhen*(深圳市高新技術企業證書) | Innovation Committee of Shenzhen* (深圳市科技創新委員會), Municipal Finance Committee of Shenzhen* (深圳市財政委員會) |
| 2017 | High and New Technology Enterprise Certificate of the State*(高新技術企業證書) | Innovation Committee of Shenzhen, Municipal Finance Committee of Shenzhen; Shenzhen State Taxation Bureau* (深圳市國家税務局); and Shenzhen Local Taxation Bureau* (深圳市地方税務局) |

## INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, we had one patent registered, and two pending patent applications, with the PRC Intellectual Property Office* (中國知識產權局) in the PRC. The validity period for our invention patents is 20 years from the date of application, and for our utility patents and design patents, the validity period is ten years, from the date of application. We also had one registered trademark and one registered domain name, as at the Latest Practicable Date. For further details, Please refer to the subsection headed "Statutory and General Information – B. Further Information about our Business – 2. Our intellectual property rights" in Appendix VI to this document.

In order to protect our own intellectual property rights, we enter into confidentiality agreements with our research and development personnel and require that all relevant intellectual properties developed by each employee during his employment terms with us become our intellectual properties and are treated as trade secrets of our Group. Our employees are required to refrain from disclosing trade secrets to any third party. Additionally, we also follow our internal procedures to ensure that we do not infringe on the intellectual property rights of others.

To the best of our Directors' knowledge and belief, during the Track Record Period and up to Latest Practicable Date, there was no material instance of infringement of intellectual property rights or disputes between our Group, our customers and other third parties in respect of intellectual property rights.

## INTERNAL CONTROL AND RISK MANAGEMENT

Our Directors are responsible for the formulation and overseeing the implementation of our internal control measures and effectiveness of quality and risk management system. We have adopted, or expect to adopt before the **[REDACTED]**, a series of internal control policies, procedures and programmes designed to provide reasonable assurance for achieving objectives including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Highlights of our internal control system include the followings:

- *Code of conduct:* Our code of conduct explicitly communicates to each employee our values, acceptable criteria for decision-making and our ground rules for behaviour. Our code of conduct also includes whistleblowing policies to encourage all employees to speak up against any sub-standard behaviour.

- *Anti-corruption:* Our anti-corruption policies provide the tools and resources necessary to enable, monitor and enforce full compliance with anti-bribery and anti-corruption laws of China and other countries where we conduct our business operations. Compliance with our anti-corruption policies is a condition of employment.

- *Compliance with the GEM Listing Rules:* Our various policies aim to ensure compliance with the GEM Listing Rules, including but not limited to aspects related to corporate governance, connection transactions and securities transactions by our Directors. We will appoint RHB Capital to act as our compliance adviser upon **[REDACTED]** and will engage external legal advisers to advise us on compliance with the GEM Listing Rules.

The ultimate goal of our risk management process is to identify and focus on the issues in our business operations that create impediments to our success. Our risk management process starts with identifying the major risks associated with our corporate strategy, goals and objectives. The key process points in our risk management include:

- *Identify:* We identify current and emerging risks in our business operations and categorise those risks into a reasonable profile based on timeframe, likelihood, intensity and impact severity. We classify the risk into internal risks, including operation and financial risks, and external risks, including risks related to economic conditions, industrial policies and regulatory requirement.

- *Assess:* We assess and prioritise risks so that the most important risks can be identified and dealt with. Based on both qualitative and quantitative analyses, we prioritise risks in terms of likelihood and impact severity.

- *Mitigate:* Based on our assessment of (i) the probability and impact severity of the risks, and (ii) cost and benefit of the mitigation plans, we choose the appropriate option for dealing with risks, including risk elimination by suspending the associated business activities, risk reduction by adopting appropriate control measures, and risk acceptance by choosing to accept risks of low priority.

- *Measure:* We measure our risk management by determining if changes have been implemented and if changes are effective. Our measures include risk avoidance, risk taking, risk reduction and risk sharing. In the event of any weakness in control, we follow up by adjusting our risk management measures and reporting material issues to our Directors.

**Compliance with Laws and Regulations by our Employees and Distributors**

In order to prevent any violation of the anti-corruption laws and regulations by our employees, we have adopted a policy to implement the following measures to regulate the conduct of our employees, including (i) establishing internal policies to increase our employees' awareness of relevant anti-corruption laws and regulations, as well as bribery-related acts; (ii) establishing a code of conduct for our employees; (iii) providing relevant trainings to our employees; (iv) providing anti-corruption-related trainings for our sales employees to explaining the penalties involved for conducting corruption activities and their duties to report such activities; and (v) providing a clear definition on the scope of corruption activities, setting out the measures for prevention and control of such activities and establishing a whistle-blowing procedure for handling reports on any corruption and bribery activity.

As at the Latest Practicable Date, we have formulated and issued the relevant internal policies, code of conduct and whistle-blowing procedure in anti-corruption and other misconducts and provided related trainings to our employees. We will also provide updated trainings to our employees annually.

For our internal control measures in relation to the legal and regulatory compliance of our distributors, please refer to the paragraph headed "– Sales and Distribution – Distribution – Management of Distributors" in this section for further details.

During the Track Record Period and up to the Latest Practicable Date, we had been in compliance with the anti-corruption laws and regulations, and we were not aware of any regulatory investigation or conviction for non-compliance with such requirements or improper payments by our Directors, employees or distributors.

Upon the **[REDACTED]**, our risk management committee, which comprises the supervisors of our production department, research and development department and quality management department, will assist our Group in reviewing and assessing from time to time the sufficiency and effectiveness of our anti-corruption measures as part of its responsibilities. We will also seek external legal advice on compliance with the anti-corruption and related laws and regulations where necessary.

## LEGAL AND COMPLIANCE

### Licences and Permits

As a medical device manufacture company that develops, manufactures, markets and sells medical device products, we are subject to regular inspections, examinations and audits of relevant authorities and are required to maintain or renew the necessary permits, licences and certifications for our business in the PRC. As advised by our PRC Legal Advisers, we have obtained all necessary and relevant PRC medical device production and operation permits or records in relation to our business, which primarily include the Medical Device Manufacturing Licence or records and operation permits. We have obtained requisite licences and permits for the sale of our manufactured products.

The following table sets forth key licences, permits and certificates relating to our business and operations (apart from those pertaining to general business requirements), their issuing authority, date of grant and expiry date:

| Permit | Name of entities | Issuing authority | Permit number | Date of grant | Expiry date |
|---|---|---|---|---|---|
| Permit for Medical Device Operation (Class III medical devices)(醫療器械經營許可證) (第三類) | Shenzhen Huakang | Shenzhen MSA | Yue B12200* (粵B12200) | 11 May 2017 | 10 May 2022 |
| Medical Device Manufacturing Licence (Class II and Class III IVD reagents) (醫療器械生產許可證) (第二及第三類體外診斷試劑) | Shenzhen Huakang | GDFDA | Yue Shi Yao Jian Xie Sheng Chan Xu No. 20030802* (粵食藥監械生產許20030802號) | 23 May 2016 | 2 May 2021 |
| Class II Medical Device Operating Record Certificate (第二類醫療器械經營備案憑證) | Shenzhen Huakang | Shenzhen MSA | Yue Shen Shi Yao Jian Xie Jing Ying Bei No. 20162327* (粵深食藥監械經營備20162327號) | 29 June 2016 | Nil |
| Class I Medical Device Production Record Certificate (第一類醫療器械生產備案憑證) | Shenzhen Huakang | Shenzhen MSA | Yue Shen Shi Yao Jian Xie Sheng Chan Bei No. 20150071* (粵深食藥監械生產備20150071號) | 6 January 2017 | Nil |
| Work Safety Standardisation (安全生產標準化證書) | Shenzhen Huakang | Work Safety and Technology Association of Longgang District, Shenzhen Municipality* (深圳市龍崗區安全生產技術協會) | Yue AQB440312X-W2016000065* (粵AQB440312X-W2016000065) | 30 September 2016 | September 2019 |

We intend to apply for renewal of the above key licenses prior to their respective expiry dates. The successful renewal of our Permit for Medical Device Operation (Class III medical devices) and our Medical Device Manufacturing Licence (Class II and Class III IVD reagents) will be subject to our fulfilment of relevant requirements which are mainly related to our principal place of business and storage, our quality control system, the academic backgrounds and qualifications of our staff and our capability of after-sales services and technical support. The successful renewal of our Work Safety Standardisation will be subject to the fulfilment of relevant requirements which mainly include our Group's occupation safety records.

Except work safety standardisation, the renewal procedures for each of the above key licences, permits and certificates are to be carried out six months prior to the expiration dates. The renewal procedure for work safety standardisation is to be carried out three months prior to the expiration date. Our Directors are not aware of any reason that would cause or lead to the non-renewal of the licences, permits and certificates. Our PRC Legal Advisers confirmed that as at the Latest Practicable Date, there was no legal impediment for us to renew the licences, permits and certificates as long as we comply with the relevant legal requirements.

Please refer to the section headed "Regulatory Overview" in this document for further details on the licences, permits and certificates required for our business in the PRC.

**Legal Proceedings**

We may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business. As at the Latest Practicable Date, no member of our Group, or none of our Directors, was engaged in any litigation, claim or administrative proceedings of material importance, and no litigation, claim or administrative proceedings of material importance is known to our Directors to be pending or threatened against any member of our Group, or any of our Directors.

As confirmed by our PRC Legal Advisers, Shenzhen Huakang have complied in all material aspects with all applicable laws and regulations in the PRC during the Track Record Period, save as disclosed in this document.

**Non-compliance Incidents**

Our PRC Legal Advisers have advised and our Directors have confirmed that, during the Track Record Period and up to the Latest Practicable Date, our Group had complied with the relevant PRC laws and regulations in all material respects, except for certain non-compliance incidents. As advised by our PRC Legal Advisers, none of the non-compliance incidents as mentioned below will constitute any material legal impediment to the **[REDACTED]**, none of them have had any material adverse effect on our Group's business operation and financial conditions. Save as disclosed below, we have been in compliance with the applicable PRC laws and regulations relating to our business operations during the Track Record Period in all material respects.

| Non-compliance incidents | Reasons for the non-compliance | Legal consequences and potential maximum and other financial liabilities | Rectification actions taken and status |
|---|---|---|---|
| Up to 31 July 2017, we contributed to the social insurance fund for our employees based on minimum wages in Shenzhen. Under applicable PRC laws and regulations such contributions should instead be calculated based on actual wages of employees. In addition, we failed to make social insurance contributions for employees during their probation periods.<br><br>The aggregate amount of outstanding social insurance contributions during the period from 1 August 2015 to 31 July 2017 is RMB830,868. | Such non-compliance was primarily due to (i) certain employees were unwilling to make social insurance fund contributions based on the actual wages as they were responsible for making the corresponding contributions under applicable PRC laws and regulations; (ii) given that employees on probation were not hired permanently and may leave employment on a short notice, Shenzhen Huakang only made the social insurance contributions for the employees after the expiry of their probation periods; and (iii) our responsible staff were unfamiliar with the relevant laws. | Pursuant to the Interim Regulations on Collection and Payment of Social Insurance Premiums (《社會保險徵繳暫行條例》), the Regulations on Labour and Social Security Inspection (《勞動保障監察條例》), and the Social Insurance Law of the PRC《中華人民共和國社會保險法》, the relevant PRC authorities may notify us that we are required to pay the outstanding social insurance contributions within a stipulated deadline. In respect of any outstanding social insurance contributions that accumulated prior to 1 July 2011, where payment is not made prior to such deadline, we may be liable to a penalty equal to 0.2% of the outstanding amount calculated daily from the date when the relevant social insurance contributions became payable. In respect of any outstanding social insurance contributions that accumulated after 1 July 2011, we may be liable to a penalty equal to 0.05% of the outstanding amount calculated daily from the date when the relevant social insurance contributions became payable and, in the event that payment is not made within the stipulated deadline, we may be subject to a fine of one to three times the outstanding contribution amount.<br><br>Pursuant to the Regulation on Labour Security Supervision (《勞動保障監察條例》), any violation of labour protection laws, regulations or rules which has not been reported, complained or found out by the labour security administrative department within two years from the date when such violation took place, the labour and social security departments will no longer investigate the relevant acts. If the violation is a continuing act, the period shall be calculated from the date when such violation ends.<br><br>Under the relevant PRC laws and regulations, any claim, including civil, criminal or administrative claim for the underpaid social insurance contributions is subject to a statutory limitation period of two years from the date when such violation took place.<br><br>Pursuant to Labour Dispute Mediation and Arbitration Law (《勞動爭議調解仲裁法》), the limitation period for applying arbitration in respect of labour dispute is one year, which shall be calculated from the date when the party knew or should have known its rights were infringed. | As at the Latest Practicable Date, Shenzhen Huakang has paid the social insurance fund contributions for all employees in full compliance with the applicable laws and regulations.<br><br>We have obtained the confirmation letters from the competent government authorities, the Social Insurance Fund Bureau of Shenzhen (深圳市社會保險基金管理局) and the Shenzhen Human Resources and Social Security Bureau (深圳市人力資源及社會保障局) respectively, confirming that there was no record of administrative punishment against us as a result of any breach of the relevant PRC laws and regulations from 1 January 2012 to 30 June 2018.<br><br>As at the Latest Practicable Date, we had not received any orders or demands requesting us to pay the outstanding social insurance contributions, or any notice of claim or penalty in relation to such non-compliance incident.<br><br>Our Group had made a provision of RMB830,868 for the outstanding social insurance contributions during the period between 1 August 2015 and 31 July 2017;<br><br>Our Controlling Shareholders have undertaken to indemnify our Group against all costs, expenses, liabilities, penalties, losses or damages incurred or suffered by our Group arising from or in connection with such non-compliance incident.<br><br>In light of the above, our PRC Legal Advisers are of the opinion that this historical non-compliance incident does not constitute any material legal impediment to the **[REDACTED]** and has not had any material adverse effect on our Group's business operation and financial conditions. |

| Non-compliance incidents | Reason(s) for the non-compliance | Legal consequences and potential maximum and other financial liabilities | Rectification actions taken and status |
|---|---|---|---|
| Up to 31 July 2017, we did not make housing provident fund contributions for certain employees, and we made contributions to the housing provident fund for other employees based on minimum wages in Shenzhen. Under applicable PRC Laws and regulations, such contributions should instead be calculated based on actual wages of employees.<br><br>The estimated amount of outstanding housing provident fund contributions during the period from 1 August 2015 to 31 July 2017 amounted to RMB262,087. | Such non-compliance was primarily due to: (i) our employees who are not Shenzhen citizens or who have their own houses voluntarily requested us not to pay the housing provident fund for them as they were unwilling to make the corresponding deductions in their salaries for such contributions; and (ii) our responsible staff were unfamiliar with the relevant laws. | Pursuant to the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》), the relevant housing provident fund authorities may request us to pay the outstanding housing provident fund contribution within a prescribed time limit and in the event that we fail to do so, the relevant housing provident fund authorities may apply with the relevant PRC court for an order for payment. | As at the Latest Practicable Date, Shenzhen Huakang has paid the housing provident fund contributions for all employees in full compliance with the applicable laws and regulations and made supplementary payments for the outstanding contributions for the period from May 2017 to July 2017.<br><br>We have obtained the confirmation letter from the competent housing provident fund authority, the Shenzhen Housing Provident Fund Management Center(深圳市住房公積金管理中心), confirming that there was no record of any administrative punishments against us owing to violation of relevant laws, regulations and rules. Further, we have obtained the confirmation letter from the competent labour administration authority, the Human Resources and Social Security Bureau of Shenzhen (深圳市人力資源和社會保障局), confirming that there was no record of any administrative punishments against us owing to violation of relevant labour laws, regulations from 1 January 2012 to 30 June 2018.<br><br>As at the Latest Practicable Date, we had not received any orders or demands requesting us to pay the outstanding housing provident fund contributions, or any notice of claim or penalty in relation to such non-compliance incident.<br><br>We have received written declarations from 21 employees for whom we did not make the housing provident fund contributions up to 31 July 2017, confirming that they voluntarily waived the rights in respect of the housing fund contributions and would not request for any further payment of the outstanding contributions or ask Shenzhen Huakang to assume any liabilities thereof in future.<br><br>Our Group had made a provision of RMB262,087 for the outstanding housing provident fund contributions during the period from 1 August 2015 to 31 July 2017;<br><br>Our Controlling Shareholders have undertaken to indemnify our Group against all costs, expenses liabilities, penalties, losses or damages incurred or suffered by our Group arising from or in connection with such non-compliance incident.<br><br>In light of the above, our PRC Legal Advisers are of the opinion that this historical non-compliance incident does not constitute any material legal impediment to the **[REDACTED]** and has not had any material adverse effect on our Group's business operation and financial conditions. |

**Recommendations by the Internal Control Consultant**

In preparation for the **[REDACTED]**, our Company has engaged an independent internal control consultant to review our internal control system, our financial reporting system and implementing control measures on non-compliance incidents. In response to the abovementioned non-compliances, the Internal Control Consultant has reviewed the following internal control measures which have been adopted by the Company, including (i) the review process for records of social insurance contributions and housing provident fund contributions on a monthly basis by our administration department; (ii) designating a supervisor of accounting department and a manager of finance department for the calculation and review of relevant tax calculations and filings of our Group; (iii) designating the general manager and the manager of our finance department for the review and approval of the tax return application form; (iv) preparing all tax filings of operating subsidiaries of our Group based on the audited accounts prepared by external auditors; (v) tax filings to be further reviewed by an independent certified tax agent before submission; and (vi) engaging external professional advisers, where necessary, to conduct review and provide advice to our Group in respect of compliance matters.

Our Group has adopted enhanced internal control measures to rectify relevant internal control weaknesses and deficiencies. The internal control consultant concludes that our Group's implementing measures against the non-compliances are effective to prevent similar non-compliances in the future.

**Directors' and the Sole Sponsor's View on Internal Control Measures relating to Non-compliance Incidents**

Based on the rectification measures taken, our enhanced internal control procedures in place after adoption of the recommendations from the internal control consultant engaged by our Company and the implementation of relevant measures regarding the non-compliance incidents, our Directors are of the view, and the Sole Sponsor concurs, that the internal control measures adopted by our Group are adequate, effective and our current operational environment in reducing the risks of future non-compliance with applicable legal and regulatory requirements. Our Sole Sponsor has confirmed that, after carrying out enquiries on the facts and circumstances leading to the non-compliances and having considered, as advised by our PRC Legal Advisers, that the non-compliances have no material financial and operational impact on our Group and that such incidents did not involve any dishonesty on the part of our Directors or challenge their integrity or competence, it concurs with the views of our Directors that the non-compliances do not affect the suitability of our Directors and our Company for **[REDACTED]** under Rules 5.01, 5.02 and 11.06 of the GEM Listing Rules.

Our Controlling Shareholders have entered into the Deed of Indemnity in favour of our Group whereby they agreed to indemnify our Group, subject to the terms and conditions therein, in respect of any liability which may arise as a result of any non-compliance disclosed above. Further details of the Deed of Indemnity are set out under the subsection headed "Statutory and General Information – D. Other Information – 1. Estate duty, tax and other indemnity" in Appendix IV to this document. Our Directors consider that the non-compliance incidents disclosed above will not have any material adverse impact on the operation or financial position or business of our Group.

**Measures Implemented to Prevent Future Non-compliance and Ensure Ongoing Compliance**

In preparation for the **[REDACTED]**, we engaged the Internal Control Consultant to conduct an evaluation of our internal control system and implemented certain suggestions and recommendations proposed by the Internal Control Consultant to improve and enhance our internal control system. In order to continuously improve our corporate governance and to prevent incidence of non- compliance in the future, we intend to adopt or have adopted the following measures:

(i) we have appointed RHB Capital as our compliance adviser with effect from the **[REDACTED]** to advise on our ongoing compliance with the GEM Listing Rules and other applicable securities laws and regulations relating to a **[REDACTED]** issuer in Hong Kong;

(ii) our legal advisers as to Hong Kong laws have provided trainings to the Directors and the senior management of our Group on the continuing obligations of a **[REDACTED]** company in Hong Kong and on Directors' responsibilities and liabilities, and will provide appropriate and adequate trainings or regular seminars and updates on these topics to the Directors and senior management from time to time after the **[REDACTED]**;

(iii) we have designated our compliance officer Mr. Poon, and our company secretary, Mr. Chau Lai Ki, to assist our Board to identify, assess and manage the risks associated with compliance of laws and regulations applicable to our Group. They will report to the Board on a timely basis in relation to any potential non-compliance incidents identified by them and, if necessary, consult external professionals for advice;

(iv) our Group will retain a PRC legal counsel to advise our Group from time to time in relation to PRC legal and regulatory compliance matters concerning our Group as a whole;

(v) our senior management and employees will be provided with our updated policies, as well as adequate training (with the assistance of external advisers and consultants, where necessary) and/or updates regarding the legal and regulatory requirements applicable to the business operations of our Group from time to time;

(vi) we have established an audit committee comprising three Independent Non-executive Directors as part of our measures to improve corporate governance. For the qualifications and experience of these committee members, please refer to the section headed "Directors and Senior Management" in this document. The primary duties of our audit committee are to provide our Directors with an independent review of effectiveness of the financial reporting process, internal control and risk management system of our Group, to oversee the audit process, and to provide advice and recommendations to our Board on the appointment, reappointment and removal of external auditors as well as other duties and responsibilities as assigned by our Directors. We have prepared written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and the Corporate Governance Code and the Corporate Governance Report as set forth in Appendix 15 of the GEM Listing Rules;

(vii) our Group's audit committee will on a regular basis review payments of the social insurance and housing provident contributions, and make recommendations regarding the internal control measures to our Directors, where appropriate;

(viii) with respect to the social insurance and housing provident fund contributions, our administration department will review the contribution records of social insurance and housing provident fund on a monthly basis to ensure future compliance.

(ix) with respect to tax filings, we have designated a supervisor of our accounting department who is responsible for establishing the calculation tables of personal income tax, EIT, stamp duty, and value-added tax, which would be audited and reviewed by the manager of our finance department;

(x) we have adopted written policies, as well as implemented measures and procedures, for the manager of finance department to review our financial accounting and tax filings, to ensure the accuracy of the accounting record and tax filings. The general manager and manager of our finance department should take a final review and approve the tax return application form before we make any tax payment;

(xi) all tax filings for operating subsidiaries of our Group, including but not limited to the EIT annual settlement of Shenzhen Huakang, will be prepared based on the audited accounts prepared by external auditors for the operating subsidiaries of our Group. Such tax filings will be further reviewed by an independent certified tax agent before submission to the relevant PRC authorities; and

(xii) In May 2018, we further engaged the same independent internal control consultant to review the enhanced control measures regarding the abovementioned non-compliance incidents for the period from 1 January 2018 to 15 May 2018. Based on the internal control review results performed by the internal control consultant, the relevant internal control measures regarding the non-compliance incidents were sufficient and effective in all material respects, as at 15 May 2018.

We believe that our internal control systems and current procedures are sufficient in terms of comprehensiveness, practicability and effectiveness.

**Views of Our Directors and the Sole Sponsor**

Our Directors are of the view that the above non-compliance incidents of our Group during the Track Record Period, individually or in the aggregate, do not and will not have any material financial or operational impact on us. After considering (i) our rectifications; (ii) measures taken to prevent any future non-compliance as well as our ongoing compliance measures mentioned above; (iii) the facts and circumstances leading to the non-compliance incidents disclosed herein; (iv) the advice provided by our PRC

Legal Advisers; and (v) as confirmed by our Directors, none of these incidents were conducted intentionally, or involved any issue in the integrity, character or competence of our Directors or senior management, our Directors and the Sole Sponsor are of the view that:

(i) our enhanced internal control measures in place are adequate and effective; and

(ii) the non-compliance incidents of our Group do not affect the suitability of our Directors under Rules 5.01 and 5.02 of the GEM Listing Rules or our suitability for **[REDACTED]** under Rule 11.06 of the GEM Listing Rules.

## EMPLOYEES

As at 31 December 2015, 31 December 2016. 31 December 2017 and 31 May 2018, we had 63, 72, 66 and 72 full-time employees, respectively. As at the Latest Practicable Date, one of our employees was located in Hong Kong and the remaining were located in the PRC. The table below sets forth a breakdown of our total number of employees by function at the Latest Practicable Date:

| Function | Number |
|---|---|
| Sales and marketing | 21 |
| Production | 12 |
| Administration | 11 |
| Quality management | 6 |
| Research and development | 7 |
| Finance | 5 |
| Engineering | 4 |
| Others | 4 |
| Total | 70 |

As at 31 May 2018, in accordance with the applicable PRC laws and regulations, we had registered with the respective local authorities in respect of social insurance and had also completed such registrations for our employees. We also made contributions for pension insurance, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and housing provident funds.

We recruit our employees based on a number of factors, including work experience, educational background and the requirements of relevant vacancy. We provide regular training to employees in accordance with our internal training guidelines, including orientation training, on-the-job training and other external training. The trainings are designed to strengthen our employees' commitment to us and improve their knowledge in a number of important areas in our business, such as knowledge about our Group and our products, laws and regulations applicable to our operation, quality control, workplace safety and corporate culture. We believe that these programmes have enhanced the productivity of our employees. As at the Latest Practicable Date, our employees have not negotiated their terms of employment through any labour union or by way of collective bargaining agreements and we have not experienced any strikes or any labour disputes with our employees which have had or are likely to have a material effect on our business.

Our Directors and the PRC Legal Advisers confirmed that we have complied with applicable employment laws and regulations in all material respects and there have been no outstanding material labour related legal proceedings or disputes against us as at the Latest Practicable Date except for the disclosure.

## INSURANCE

We maintain property insurance covering our production facilities and equipment that we believe is sufficient in accordance with customary industry practice, as well as social security insurance in accordance with the relevant laws and regulations in the PRC. We do not carry any product liability insurance or business interruption insurance, which are not mandatory under PRC law as confirmed by our PRC Legal Advisers. Please refer to the subsection headed "Risk Factors – Our insurance coverage is limited which may not cover all our potential losses and liabilities" in this document for further details on the risks relating to our current insurance coverage. To minimise our product liability risk, we have instituted quality control measures in order to avoid or reduce the incidence of product defects. Please refer to the paragraph headed "– Production Capacities – Quality Management" above for further details on our quality control system. Our Directors are of the view that our current insurance coverage is in line with industry practice and is adequate for our operations.

## HEALTH AND OCCUPATIONAL SAFETY

We are subject to various PRC laws and regulations in respect of health and occupational safety. We are committed to complying with PRC regulatory requirements, preventing and reducing hazards and risks associated with our operation, and ensuring the health and safety of our employees and surrounding communities. We have adopted and maintained a series of rules, standard operating procedures and measures to maintain a healthy and safe environment for our employees, including those required under the medical device manufacturing permit. In addition, we have implemented infrastructure and safety policies to ensure equipment safety, to prevent or minimise community exposure to flammable hazardous or toxic materials. As at the Latest Practicable Date, we had not experienced any material accidents in the course of our operation and our Directors were not aware of any claims for personal or property damages in connection with health and occupational safety.

## ENVIRONMENTAL MATTERS

Our business is subject to the national, provincial and local environmental laws and regulations in the PRC. The relevant laws and regulations applicable to medical device production in the PRC include provisions governing air emissions, water discharge, prevention and treatment of sewage and exhaust fumes as well as the management and disposal of hazardous substances and waste. Manufacturers are also required to conduct an environmental impact assessment before engaging in a new construction project to ensure that the production process meets the required environmental standards and treats wastes properly before the wastes are discharged.

The main pollutants generated during our production process include waste water and solid waste. We improve our production techniques to reduce the pollutants we discharge to the environment. We have engaged qualified waste treatment institutions to reduce, treat, dispose of and recycle the waste and discharge generated in our production process. Further, our operation does not involve any biochemical preparation or chemical reaction, nor generating exhaust gases. The recyclable part of solid waste from our

production is collected by the waste recycling department of local government, and the non-recyclable part is passed to the sanitation department of local government for disposal. Hence, as advised by our PRC Legal Advisers, we are not required to obtain any licence for the treatment and disposal of waste and discharge from our production. We believe we have maintained good relationship with the communities surrounding our production facilities. Our annual costs incurred during the Track Record Period in relation to environmental protection were of an insignificant amount. We expect that our cost of compliance with applicable environmental rules and regulations for the year ending 31 December 2018 will not materially deviate from the level during the Track Record Period.

Our PRC Legal Advisers confirmed that as at the Latest Practicable Date, we had fully complied with all applicable laws and regulations relating to production safety and environmental requirements in all material respects during Track Record Period.

## COMPETITION

The PRC IVD industry is currently relatively fragmented with over 1,000 market participants, most of which are small-sized companies producing low-end and mid-end products. We believe that while competition will continue to increase, not all participants within this industry can be considered our competitors due to differences in product portfolios, target customer bases and business models.

The PRC male fertility IVD reagent market is highly concentrated, with 38 manufacturers in this market in 2017. The top five market players are domestic manufacturers, accounting for over 73.5% of the market share in terms of medical institution purchase value in 2017 whereas the remaining 33 manufacturers together accounted for an aggregate market share of 26.5%. We ranked the third in the PRC male fertility IVD reagent market in terms of medical institution purchase value in 2017, with a market share of 14.3%. Please refer to the section headed "Industry Overview" in this document for further details.

Great potential in the PRC fertility IVD market may attract large biotechnology companies with considerable resources to enter as new comers. Existing IVD reagents are expected to be substituted gradually with newer products which can provide more convenience and more accurate results to customers. In addition, certain of our existing competitors may adopt low-margin sales strategies and compete against us based on lower prices. Some foreign medical device manufacturers may also set up domestic production bases in the PRC leading to increasing direct competition. Please also refer to the subsection headed "Risk Factors – If our competitors successfully market effective substitutes for any of our products, it could adversely affect our business, financial condition and results of operations." in this document for further details on potential risks.

## LAND AND PROPERTIES

As at the Latest Practicable Date, we had leased the following property for our production, research and development and administration:

| Address | Usage | Area (approximate sq.m.) | Leased term | Monthly rent |
|---|---|---|---|---|
| 1-3/F Building D, Shenzhen Junxuan, 16 Yinkui Road, Kuixin Community, Kuichong Office, Dapeng New District Shenzhen* (深圳市大鵬新區葵涌辦事處葵新社區銀葵路16號君軒公司D棟廠房一層、二層、三層) | Production plant and office | 3,706.7 | 14 September 2017 to 13 September 2020 | RMB37,067.2 (exclusive of management fee, rates and government rent) |

As at the Latest Practicable Date, our leased property in Dapeng New District, Shenzhen is leased from Shenzhen Junxuan, a wholly-owned company by Mr. Zhang, our Executive Director and Controlling Shareholder, and the rental payable was determined with reference to the prevailing market price and the terms of the rental agreements were negotiated on an arm's length basis. Please refer to the section headed "Connected Transactions" in this document for further details. According to our PRC Legal Advisers, the leasing of the leased properties of our Group are legal and valid.

## DIRECTORS

Our Board consists of six Directors, comprising three Executive Directors and three Independent Non-executive Directors. The following table sets forth information in respect of our Directors:

| Name | Age | Position | Date of joining our Group | Date of appointment as Director | Roles and responsibilities | Relationship with our Controlling Shareholders, other Directors and senior management |
|---|---|---|---|---|---|---|
| Mr. Zhang Shuguang (張曙光) | 47 | Executive Director and chairman of our Board | September 2003 | 3 August 2017 | Responsible for the management of our Board, giving strategic advice and guidance on the business and operations of our Group | Brother of Mr. Zhang Chunguang and Mr. Chang |
| Mr. Zhang Chunguang (張春光) | 50 | Executive Director and chief executive officer | July 2008 | 3 August 2017 | Responsible for business operations and day-to-day management of our Group | Brother of Mr. Zhang and Mr. Chang |
| Mr. Poon Lai Yin Michael (潘禮賢) | 46 | Executive Director and chief financial officer | August 2017 | 3 August 2017 | Responsible for financial management of our Group | Nil |
| Dr. Yeung David Wai Chow (楊煒秋) | 71 | Independent Non-executive Director | November 2018 | 26 November 2018 | Supervising our Group's compliance, corporate governance matters and providing independent advice to our Group | Nil |
| Mr. Kwok Chi Shing (郭志成) | 56 | Independent Non-executive Director | November 2018 | 26 November 2018 | Supervising our Group's compliance, corporate governance matters and providing independent advice to our Group | Nil |
| Mr. Chan Kin Sang (陳健生) | 66 | Independent Non-executive Director | November 2018 | 26 November 2018 | Supervising our Group's compliance, corporate governance matters and providing independent advice to our Group | Nil |

**Executive Directors**

**Mr. Zhang Shuguang (張曙光)**, aged 47, is our Executive Director and chairman of our Board. He is mainly responsible for the management of our Board, giving strategic advice and guidance on the business and operations of our Group. Mr. Zhang has over 14 years of experience in the IVD reagents industry in the PRC. From March 2002 to May 2003, he served as assistant of general manager of Shenzhen Junxuan. Since January 2008, Mr. Zhang has been serving as the chairman of the board and the legal representative of Shenzhen Junxuan. Mr. Zhang joined our Group in September 2003 and has been acting as the director and the chairman of the board of Shenzhen Huakang since then. He is mainly responsible for the management of the board of Shenzhen Huakang and responsible for giving strategic advice on the business and operation of Shenzhen Huakang. He was appointed as our Director on 3 August 2017 and was re-designated as our Executive Director on 25 September 2017. He is also the director of Huakang BVI, King Grace and Shenzhen Huakang.

Over the course of his career, Mr. Zhang was also involved in the acquisition and operation of mineral resources and gold mines in the PRC. Mr. Zhang was appointed as vice-president of and general manager of the China operation center of Munsun Capital Group Limited (stock code: 1194.HK) (formerly known as China Precious Metal Resources Holdings Co., Limited) in July 2010 and March 2011 respectively, the shares of which are listed on the main board of the Stock Exchange, which principally engages in mining and processing of gold ores and sale of gold products in the PRC and provision of financial services in the PRC and HK, including asset management, securities brokerage, financing and advisory services. He was mainly responsible for acquisition and operation of mineral resources. He was later appointed as an executive director of Munsun Capital Group Limited in September 2011 and resigned in August 2017. Mr. Zhang plays an instrumental role in defining our Group's business strategies and providing guidance to our business and operations. His years of experience in the mining industry, mergers and acquisition and business management have all enabled him to develop insights in the macro economic environment and the market trend which may help our Group identify themes and opportunities in the PRC market. Mr. Zhang has undertaken to devote sufficient time and attention to the management of our Board and giving strategic advice and guidance on the business and operations of our Group.

Mr. Zhang obtained a bachelor's degree and master's degree in engineering from Nippon Institute of Technology, Japan in March 1999 and March 2001, respectively.

Mr. Zhang is the brother of Mr. Zhang Chunguang, who is an Executive Director and the chief executive officer of our Group. Mr. Zhang is also the brother of Mr. Chang, who is our Controlling Shareholder and a member of our senior management. Other than disclosed in this document, Mr. Zhang is not connected with any other Directors, members of our senior management, substantial shareholders or Controlling Shareholders of our Company.

Save as disclosed above, Mr. Zhang has not held any directorships in any other public companies, the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years immediately preceding the date of this document.

**Mr. Zhang Chunguang (張春光)**, aged 50, is our Executive Director and chief executive officer of our Group. He is mainly responsible for our business operations and the day-to-day management of our Group. Mr. Zhang Chunguang has over 9 years of experience in the IVD reagents industry in the PRC. Prior to joining our Group, Mr. Zhang Chunguang served managerial roles in several private companies in the PRC and mainly responsible for product sales and promotion, and product order management. Mr. Zhang Chunguang joined our Group in July 2008 and served as the director of Shenzhen Huakang since then. In August 2008, he was further appointed the general manager of Shenzhen Huakang. Mr. Zhang Chunguang was appointed as our Director on 3 August 2017 and re-designated as our Executive Director on 25 September 2017. He is also the director of Huakang BVI.

Mr. Zhang Chunguang graduated from Hubei Institute of Economics, in the PRC in June 1992, majoring in economic English.

Mr. Zhang Chunguang is the brother of Mr. Zhang, who is an Executive Director and the chairman of our Board. Mr. Zhang Chunguang is also the brother of Mr. Chang, who is a Controlling Shareholder and a member of our senior management. Other than disclosed in this document, Mr. Zhang Chunguang is not connected with any other Directors, members of our senior management, substantial shareholders or Controlling Shareholders of our Company.

Mr. Zhang Chunguang has not held any directorships in any public companies, the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years immediately preceding the date of this document.

**Mr. Poon Lai Yin Michael (潘禮賢)**, aged 46, is our Executive Director, chief financial officer and compliance officer of our Group. He is responsible for the financial management of our Group. He joined our Group as our Director on 3 August 2017. On 25 September 2017, he was designated as our Executive Director and appointed as our compliance officer. He is also the director of Huakang BVI.

Mr. Poon has over 20 years of experience in financial reporting, business advisory, auditing, taxation, accounting, merger and acquisition. From March 1995 to February 1997, he worked in Chan Chak Chung & Co. and his last position was audit senior. From March 1997 to June 1999, he worked in Ho & Au Yeung and his last position was audit semi-senior. From November 2000 to March 2002 he served as senior accountant in Arthur Andersen & Co., which was merged into PricewaterhouseCoopers in 2002.

Mr. Poon is/was holding the following positions in the following companies, the shares of which are listed in Hong Kong or overseas.

| Name of company | Principal business activities | Period of service | Position and major responsibilities |
|---|---|---|---|
| KOALA Financial Group Limited (formerly known as Sunrise (China) Technology Group Limited and Sonavox International Holdings Limited), the shares of which are listed on GEM (stock code: 8226.HK) | Formerly engaged in manufacturing and sale of quality and high performance loudspeaker systems to leading global automobiles and consumer electronics companies | March 2002 to June 2008 | Financial controller, company secretary and authorised representative, and responsible for finance matters and company secretary matters |
| China Uptown Group Company Limited, the shares of which are listed on the main board of the Stock Exchange (stock code: 2330.HK) | Property development; trading of raw sugar and trading of electronic related components, mobile phone modules and automation products | November 2006 to present | Independent non-executive director, responsible for providing independent advice on issues of strategies, performance and standard of conduct |
| Enviro Energy International Holdings Limited, the shares of which are listed on the main board of the Stock Exchange (stock code: 1102.HK) | Development of environment energy-related projects involving conventional oil, unconventional natural gas and state-of-the-art oil and gas related environmental technologies in the PRC | December 2006 to July 2008 | Independent non-executive director, responsible for providing independent advice on issue of strategies, performance and standard of conduct |
| | | July 2008 to November 2009 | Chief financial officer, responsible for the overall management of finance |
| Sun International Resources Limited (formerly known as Sun International Group Limited, Galileo Capital Holdings Limited and L. P. Lammas International Limited), the shares of which are listed on GEM (stock code: 8029.HK) | Trading and extraction of minerals, trading of bloodstock and provision of administrative service | September 2008 to September 2011 | Independent non-executive director, responsible for providing independent advice on issues of strategies, performance and standard of conduct |
| Smartac Group China Holdings Limited (formerly known as Sino Dragon New Energy Holdings Limited, China Zirconium Limited and Asia Zirconium Limited), the shares of which are listed on the main board of the Stock Exchange (stock code: 0395.HK) | Research and development, manufacture and sale of energy materials | January 2010 to present | Independent non-executive director, responsible for providing independent advice on issues of strategies, performance and standard of conduct |

| Name of company | Principal business activities | Period of service | Position and major responsibilities |
|---|---|---|---|
| Celebrate International Holdings Limited (formerly known as Hong Kong Life Group Holdings Limited and Aptus Holdings Limited), the shares of which are listed on GEM (stock code: 8212.HK) | Trading of food and beverage, money lending, provision of health care services, securities investment and trading, property investment and provision of logistics services | June 2010 to April 2011<br>October 2010 to July 2011<br>July 2011 to December 2011 | Company secretary, responsible for company secretarial matters<br>Executive director, responsible for managing the overall business of the company<br>Non-executive director, responsible for participating in the formulation of business strategies of the company |
| Vincent Medical Holdings Limited, the shares of which are listed on the main board of the Stock Exchange (stock code: 1612.HK) | Manufacture a range of medical devices, focusing on respiratory products, imaging contrast media power injector disposable products, and orthopaedic and rehabilitation products | February 2016 to July 2017 | Alternate director, responsible for assisting in management, performance measurement's development and fund raising |
| Anxin-China Holdings Limited, the shares of which are listed on the main board of the Stock Exchange (stock code: 1149.HK) | Integrated solutions provider, services operator and equipment manufacturer of intelligent surveillance, disaster alert and rescue coordination systems and intelligent safety systems | February 2017 to May 2017 | Chief executive officer, authorised representative and the company secretary, responsible for the matters in relation to the resumption of trading |
| Cityneon Holdings Limited, the shares of which are listed on the main board of the Singapore Exchange Limited (stock code: 5HJ.SGX) | Provision of exhibitions and event management services, including rental of reusable modules and furnishings, road shows and custom-built pavilions | 11 August 2017 to present | Independent non-executive director, responsible for providing independent advice on issues of strategies, performance and standard of conduct |

Notwithstanding Mr. Poon's engagement as an independent non-executive director of China Uptown Group Company Limited (stock code: 2330.HK), Smartac Group China Holdings Limited (stock code: 0395.HK) and Cityneon Holdings Limited (stock code: 5HJ.SGX):

(i) his roles in those listed companies are non-executive in nature which do not require his full time involvement and he does not participate in the day-to-day operations of those listed companies;

(ii) as advised and confirmed by Mr. Poon, he has not found difficulties in devoting to and managing his time for numerous listed companies and he is confident that with his experience in being responsible for multiple roles, he will be able to discharge his duties as the Executive Director of our Company;

(iii) as advised and confirmed by Mr. Poon, none of the listed companies that he has directorship with has questioned or complained about his time devoted to such listed companies and the engagement with our Group;

(iv) according to Mr. Poon's confirmation, in respect of the most recent two complete financial years in which Mr. Poon had been a director of such companies, he had a high attendance rate for board meetings held; and

(v) in discharging his responsibilities within our Group, Mr. Poon is assisted by dedicated teams of staff in the relevant areas and is sufficiently supported.

Based on the foregoing, Mr. Poon has advised and confirmed that he has sufficient time to act as our Executive Director. Based on the same, our Directors do not have reasons to believe that the various positions currently held by Mr. Poon will result in Mr. Poon not having sufficient time to act as our Executive Director or not properly discharging his fiduciary duties as the Executive Director of our Company, and the Sole Sponsor concurs with such views of our Directors.

Mr. Poon was a director of the following companies which were incorporated in Hong Kong prior to their respective dissolution:

| **Name of the relevant company** | **Principal business activity prior to cessation of business** | **Date of dissolution** | **Means of dissolution** | **Reason for dissolution** |
|---|---|---|---|---|
| Biosphere Company Limited | Investment holding | 5 August 2016 | Deregistration | Cessation of business |
| Hong Kong Wan Zhong Travel Company Limited 香港萬眾旅行社有限公司 | Travel service | 2 December 2016 | Deregistration | Cessation of business |
| Wan Zhong Travel Group Holdings Limited 萬眾旅業集團控股有限公司 | Travel service | 3 June 2016 | Deregistration | Cessation of business |

Mr. Poon confirmed that (i) each of the dissolved companies above was solvent immediately prior to its dissolution and had no outstanding claim or liabilities; (ii) there is no wrongful act on his part leading to the above dissolutions; and (iii) he is not aware of any actual or potential claim has been or will be made against him as a result of the dissolutions.

Mr. Poon obtained a bachelor's degree in administrative studies from York University, Canada in June 1995 and a master's degree in practising accounting from Monash University, Australia in July 1998. Mr. Poon has been a fellow member of HKICPA since July 2009, and a member with CPA Australia since March 2000 respectively. Mr. Poon passed the qualification examination of Asset Management Association of China (中國證券投資基金業協會從業資格考試) in 2016.

Save as disclosed above, Mr. Poon has not held any directorships in any other public companies, the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years immediately preceding the date of this document.

**Independent Non-executive Directors**

**Dr. Yeung David Wai Chow (楊煒秋)**, aged 71, was appointed as our Independent Non-executive Director on 26 November 2018. He is responsible for supervising our Group's compliance, corporate governance matters and providing independent advice to our Group. Dr. Yeung has over 40 years of experience in nuclear medicine and management. He had worked in several hospitals and a university with respect to nuclear medicine. Dr. Yeung is currently the honorary professor of the department of diagnostic radiology of the University of Hong Kong. He was the consultant of diagnostic radiology of HKU-Shenzhen Hospital from September 2012 to August 2015. He was the honorary consultant of the department of nuclear medicine and positron emission tomography of Hong Kong Sanatorium and Hospital from January 1999 to December 2002. He was the member of the radiological protection advisory group of the department of health of Hong Kong from June 2010 to May 2013. Dr. Yeung was previously appointed as the director of molecular imaging and medical cyclotron centre of the University of Hong Kong and the chief of the division of nuclear medicine of UCSD school of medicine, the University of California, San Diego.

Dr. Yeung was a director of the following company which was incorporated in Hong Kong prior to its dissolution:

| Name of the relevant company | Principal business activity prior to cessation of business | Date of dissolution | Means of dissolution | Reason for dissolution |
|---|---|---|---|---|
| Harvard (Hong Kong) Limited<br>恒福(香港)有限公司 | Property investment | 16 October 2009 | Deregistration | Cessation of business |

Dr. Yeung confirmed that (i) the dissolved company above was solvent immediately prior to its dissolution and had no outstanding claim or liabilities; (ii) there is no wrongful act on his part leading to the above dissolution; and (iii) he is not aware of any actual or potential claim has been or will be made against him as a result of the dissolution.

Dr. Yeung obtained a bachelor's degree in medicine and surgery and master's degree in social sciences (behavioural health) from the University of Hong Kong in October 1971 and November 2010, respectively. Dr. Yeung currently holds medical practitioner licences in Hong Kong and California, the United States respectively. He also obtained a certificate from the American Board of Nuclear Medicine, American Board of Pediatrics and American Board of Integrative Holistic Medicine in the United States in December 1975, September 1976 and December 2016, respectively.

Dr. Yeung has not held any directorship in any public companies, the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years immediately preceding the date of this document.

**Mr. Kwok Chi Shing (郭志成)**, aged 56, was appointed as our Independent Non-executive Director on 26 November 2018. He is responsible for supervising our Group's compliance, corporate governance matters and providing independent advice to our Group. Mr. Kwok has more than 20 years of experience in audit assurance, cross border taxation and project finance. From August 1993 to February 1999, he was one of the partners at Wong Lam Leung & Kwok C.P.A. Limited. He was the director of Lam, Kwok, Kwan & Cheng C.P.A. Limited from February 1999 to May 2010 and has been the director of LKKC C.P.A. Limited since December 2007.

Mr. Kwok is currently an independent non-executive director in a number of Hong Kong listed companies and a Singapore listed company, namely Grand Ocean Advanced Resources Co. Ltd (stock code: 65.HK) (formerly known as Angel Technology Co Ltd), the shares of which are listed on the main board of the Stock Exchange since 27 January 2006, Speed Apparel Holding Limited (stock code: 8183.HK) since 23 January 2017, and Hang Chi Holdings Limited (stock code: 8405.HK) since June 2017, the shares of both are listed on GEM, and Cityneon Holdings Limited (stock code: 5HJ.SGX) since August 2017, a company listed on the main board of Singapore Exchange Limited.

Mr. Kwok has been a director of Pok Oi Hospital, Hong Kong since 2015 and he was appointed as the founding second vice president of the Lions Club of Hong Kong New Territories West Limited in 2015.

Mr. Kwok was a director of the following companies which were incorporated in Hong Kong prior to their respective dissolution:

| **Name of the relevant company** | **Principal business activity prior to cessation of business** | **Date of dissolution** | **Means of dissolution** | **Reason for dissolution** |
|---|---|---|---|---|
| China Investment Consultants Limited | Consultancy | 20 February 2004 | Striking off | Cessation of business |
| Core Corporate Communications (Greater China) Limited 確思傳信(大中華)有限公司 | Consultancy | 30 July 2004 | Deregistration | Cessation of business |
| Financial Planning Standards Board (Hong Kong) Limited | Association | 19 June 2015 | Deregistration | Cessation of business |
| FPSB (HK) Limited | Association | 27 March 2015 | Deregistration | Cessation of business |
| HKU Professional Diploma In Real Estate Administration Alumni Limited | Alumni association | 26 March 2010 | Striking off | Cessation of business |
| Kwok & Lam CPA Limited 郭志成、林勝鴻會計師事務所有限公司 | CPA Practice | 13 October 2006 | Deregistration | Cessation of business |

Mr. Kwok confirmed that (i) each of the dissolved companies above was solvent immediately prior to its dissolution and had no outstanding claim or liabilities; (ii) there is no wrongful act on his part leading to the above dissolutions; and (iii) he is not aware of any actual or potential claim which has been or will be made against him as a result of the dissolutions.

Mr. Kwok obtained master's degree in arts in economics with accountancy from The University of Aberdeen, the United Kingdom in July 1986. He has been a chartered accountant in Scotland, the United Kingdom since November 1989. He has been a certified public accountant, certified tax advisor and certified financial planner in Hong Kong since January 1991, June 1992 and October 2001 respectively. Mr. Kwok became a member of China Mergers & Acquisitions Association (中國併購公會) in March 2014.

Save as disclosed above, Mr. Kwok has not held any directorships in any other public companies, the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years immediately preceding the date of this document.

**Mr. Chan Kin Sang (陳健生)**, aged 66, was appointed as our Independent Non-executive Director on 26 November 2018. Mr. Chan has over 30 years of experience in legal practice in Hong Kong. From August 1996 to March 2006, he was a partner of Peter K.S. Chan & Co., and from April 2006 to August 2016, he was the sole proprietor of the firm. The firm changed into a partnership on September 2016 and since then Mr. Chan has been working as a partner of the firm.

Mr. Chan is/was holding the following positions in the following companies, the shares of which are listed in Hong Kong, PRC or overseas.

| Name of company | Principal business activities | Period of service | Position and major responsibilities |
|---|---|---|---|
| Munsun Capital Group Limited (formerly known as China Precious Metal Resources Holdings Co., Limited), the shares of which are listed on the main board of the Stock Exchange (stock code: 1194.HK) | Mining and processing of gold ores and sale of gold products in PRC, provision of financial services business in Hong Kong and the PRC, including asset management, securities brokerage, financing and advisory services | June 2004 to October 2016 | Independent non-executive director, responsible for providing independent advice on issues of strategies, performance and standard of conduct |
| Combest Holdings Limited, the shares of which are listed on GEM (stock code: 8190.HK) | Money lending; provision of consultancy services and company secretarial services; and investment management services | September 2004 to January 2017 | Non-executive director, responsible for monitoring the executive activities and advising on corporate and business strategies |
| Luxking Group Holdings Limited, the shares of which are listed on the main board of the Singapore Exchange Limited (stock code: BKK.SGX) | Investment holding, single business segment of trading and manufacturing of packing tapes, stationery tapes and biaxially oriented polypropylene films | June 2005 to present | Independent non-executive director, responsible for providing independent advice on issues of strategies, performance and standard of conduct |
| Pan Hong Holdings Group Limited (formerly known as Pan Hong Property Group Limited), the shares of which are listed on the main board of the Singapore Exchange Limited (stock code: P36.SGX) | Investment holding and property development business | August 2006 to present | Non-executive director, responsible for providing independent advice on issues of strategies, performance and standard of conduct |
| China Taifeng Beddings Holdings Limited, the shares of which are listed on the main board of the Stock Exchange (stock code: 873.HK) *(Note)* | Manufacturing and distribution of quality cotton yarns and bedding products in China | November 2009 to September 2017 | Independent non-executive director, responsible for providing independent advice on issues of strategies, performance and standard of conduct |
| Tianjin TEDA Biomedical Engineering Company Limited, the shares of which are listed on GEM (stock code: 8189.HK) | Manufacturing and sale of biological compound fertiliser products | May 2013 to December 2016 | Independent non-executive director, responsible for providing independent advice on issues of strategies, performance and standard of conduct |

*Note:* China Taifeng Beddings Holdings Limited (stock code: 873.HK) ("**China Taifeng**") was incorporated in the Cayman Islands on 21 May 2009. An order was granted by the High Court of the Hong Kong Special Administrative Region on 27 July 2018, which fell within 12 months after the resignation by Mr. Chan as an independent non-executive director of China Taifeng, appointing provisional liquidators to China Taifeng pursuant to a winding-up petition filed by China Taifeng on 26 July 2018 on the ground that China Taifeng was insolvent and unable to pay its debts. Mr. Chan confirmed that (i) there was no wrongful act on his part leading to the above winding-up petition; and (ii) he is not aware of any actual or potential claim which has been or will be made against him as a result of the winding-up petition.

| Name of company | Principal business activities | Period of service | Position and major responsibilities |
|---|---|---|---|
| Tianhe Chemicals Group Limited, the shares of which are listed on the main board of the Stock Exchange (stock code: 1619.HK) | Specialty chemicals producer in the PRC, has two principal business segments namely, lubricant additives and specialty fluorochemicals | May 2014 to present | Independent non-executive director, responsible for providing independent advice on issues of strategies, performance and standard of conduct |
| China Fortune Financial Group Limited, the shares of which are listed on the main board of the Stock Exchange (stock code: 290.HK) | Securities and insurance brokerage, margin financing, provision of corporate finance services and money lending services | July 2014 to present | Independent non-executive director, responsible for providing independent advice on issues of strategies, performance and standard of conduct |
| Runway Global Holdings Limited, the shares of which are listed on the main board of the Stock Exchange (stock code: 1520.HK) | Manufacturing and trading of apparels and provision of money lending services | October 2015 to December 2016 | Independent non-executive director, responsible for providing independent advice on issues of strategies, performance and standard of conduct |
| Guanghe Landscape Culture Communication Co., Ltd, Shanxi, the shares of which are listed on the Shanghai stock exchange (stock code: 600234.SH) | House leasing and trading | June 2016 to present | Director, responsible for overseeing the business operations and overall management of the company |
| China Healthcare Enterprise Group Limited, the shares of which are listed on the main board of the Stock Exchange (stock code: 1143.HK) | Electronic manufacturing services, marketing and distribution of branded SMB phone systems, assembling and/or marketing and distribution of branded multimedia products and computer accessories, gaming and entertainment products | October 2016 to July 2017 | Non-executive director, responsible for monitoring the executive activities and advising on corporate and business strategies |
| Pak Tak International Limited, the shares of which are listed on the main board of the Stock Exchange (stock code: 2668.HK) | Industrials, provision of commercial and professional services and sourcing and supply chain services | April 2018 to present | Independent non-executive director, responsible for providing independent advice on issues of strategies, performance and standard of conduct |

Notwithstanding Mr. Chan's engagement as a partner of Peter K.S. Chan & Co. and an independent non-executive director or a non-executive director or a director of six companies listed on the Stock Exchange or any securities market overseas, as advised and confirmed by Mr. Chan, he has sufficient time to act as our Independent Non-executive Director based on the following:

(i) as advised and confirmed by Mr. Chan, he has not found difficulties in devoting to and managing his time for Peter K.S. Chan & Co. and numerous listed companies and he is confident that with his experience in being responsible for multiple roles, he will be able to discharge his duties as an Independent Non-executive Director of our Company;

(ii) as advised and confirmed by Mr. Chan, neither Peter K.S. Chan & Co. nor the listed companies that he has directorship with has questioned or complained about his time devoted to the listed companies or firm and the engagement with our Group;

(iii) Mr. Chan's role in our Group is non-executive in nature and he will not be involved in the daily management of our Group's business, thus his engagement as an Independent Non-executive Director will not require his full-time participation;

(iv) according to Mr. Chan's confirmation, in respect of the most recent two complete financial years in which Mr. Chan had been a director of such companies, he had a high attendance rate for board meetings held; and

(v) in discharging his responsibilities as a partner of Peter K.S. Chan & Co. and a director of Guanghe Landscape Culture Communication Co., Ltd, Shanxi, Mr. Chan is assisted by dedicated teams of staff in the relevant areas and is sufficiently supported.

Based on the foregoing, our Directors do not have reasons to believe that the various positions currently held by Mr. Chan will result in Mr. Chan not having sufficient time to act as our Independent Non-executive Director or not properly discharging his fiduciary duties as a Director of our Company, and the Sole Sponsor concurs with such views of our Directors.

Mr. Chan was a director of the following companies which were incorporated in Hong Kong prior to their respective dissolution:

| **Name of the relevant company** | **Principal business activity prior to cessation of business** | **Date of dissolution** | **Means of dissolution** | **Reason for dissolution** |
|---|---|---|---|---|
| Grand Kosly Holdings Limited | Investment holding | 26 November 1999 | Striking off | Cessation of business |
| Gt Finance Limited 銀通財務有限公司 | Finance | 15 February 2002 | Striking off | Cessation of business |

Mr. Chan confirmed that (i) each of the dissolved companies above was solvent immediately prior to its dissolution and had no outstanding claim or liabilities; (ii) there is no wrongful act on his part leading to the above dissolutions; and (iii) he is not aware of any actual or potential claim has been or will be made against him as a result of the dissolutions.

Mr. Chan graduated from the University of Hong Kong with a bachelor's degree in laws in November 1979. He was admitted as a notary public in April 1997. He is currently a fellow of the Hong Kong Institute of Directors, a China-appointed attesting officer and a practising solicitor in Hong Kong.

Save as disclosed above, Mr. Chan has not held any directorships in any other public companies, the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years immediately preceding the date of this document.

**Disclosure required under Rule 17.50(2) of the GEM Listing Rules**

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rule 17.50(2)(h) to (v) of the GEM Listing Rules as at the Latest Practicable Date.

## SENIOR MANAGEMENT

The following table sets out information in respect of the members of our senior management:

| Name | Age | Position | Date of joining our Group | Roles and responsibilities | Relationship with Controlling Shareholders, other Directors and senior management |
|---|---|---|---|---|---|
| Mr. Chang Yim Yang (張賢陽) | 55 | Vice chairman, director of Shenzhen Huakang and director of King Grace | September 2003 | Responsible for general management and business development of Shenzhen Huakang | Brother of Mr. Zhang Chunguang and Mr. Zhang |
| Mr. Chau Lai Ki (周麗麒) | 35 | Financial controller of our Group and our company secretary | September 2017 | Responsible for financial management and company secretarial matters of our Group | Nil |
| Mr. Fu Jianhua (傅劍華) | 52 | Deputy general manager and chief technology officer of Shenzhen Huakang | January 2004 | Responsible for the technology research and development of our Group | Nil |
| Mr. Zeng Zhouxiang (曾周祥) | 40 | Deputy general manager of Shenzhen Huakang | September 2003 | Responsible for the day-to-day management and assisting on corporate governance matters of our Group | Nil |

**Mr. Chang Yim Yang (張賢陽)**, aged 55, is vice chairman and a director of Shenzhen Huakang and a director of King Grace. He has been mainly responsible for the general management and business development of Shenzhen Huakang. Mr. Chang has over 15 years of experience in mergers and acquisitions as well as capital market operations. He joined our Group in September 2003 and served as vice chairman and a director of Shenzhen Huakang since then. Prior to 2003, Mr. Chang was mainly engaged in investment in private businesses such as trading companies and properties. Given that Mr. Chang wishes to focus on the operational aspects related to our Group's core business in the PRC and this arrangement allows our Executive Directors to focus on other areas such as the compliance requirements of our Company, as such Mr. Chang was not appointed as a Director.

From June 2008 to August 2016, Mr. Chang served as an executive director of Munsun Capital Group Limited (stock code: 1194.HK) (formerly known as China Precious Metal Resources Holdings Co., Limited), the shares of which are listed on the main board of the Stock Exchange.

Mr. Chang is the brother of Mr. Zhang, who is our Controlling Shareholder, our Executive Director and chairman of our Board. Mr. Chang is also the brother of Mr. Zhang Chunguang, who is an Executive Director and the chief executive officer of our Group. Other than disclosed in this document, Mr. Chang is not connected with any other Directors, members of the senior management, substantial shareholders or Controlling Shareholders of our Company.

Mr. Chang has not held any directorships in any public companies, the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years immediately preceding the date of this document.

**Mr. Chau Lai Ki (周麗麒)**, aged 35, is the financial controller of our Group and our company secretary. He is mainly responsible for the financial management and company secretarial matters of our Group. He joined our Group and appointed as company secretary of our Company on 25 September 2017. He was further appointed as financial controller of our Group on 7 November 2017.

Mr. Chau has over 13 years of experience in the finance and accounting industry in Hong Kong. From August 2005 to February 2012, he served as accountant in Ho Tak Sang & Co. and was mainly responsible for providing auditing and taxation services to clients. From February 2012 to January 2017, he served as deputy manager in Crowe Horwath (HK) CPA Limited and was mainly responsible for provision of audit services to clients. From May 2017 to August 2017, he served as investment director in Integrity Partners Capital Company Limited, a company principally engages in investment management, where Mr. Chau was mainly responsible in providing advisory services to clients in various industries.

Mr. Chau obtained his associate's degree in business administration in accountancy from the City University of Hong Kong in November 2005 and obtained his master's degree in professional accounting from The Hong Kong Polytechnic University in October 2012. Mr. Chau became a member of the HKICPA in May 2011.

Mr. Chau has not held any directorships in any public companies, the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years immediately preceding the date of this document.

**Mr. Fu Jianhua (傅劍華)**, aged 52, is the deputy general manager and chief technology officer of Shenzhen Huakang. He is mainly responsible for the technology research and development of our Group. Mr. Fu has over 17 years of experience in the medical devices and IVD reagents industry in the PRC.

From July 2000 to August 2003, Mr. Fu worked as deputy general manager in Shenzhen Kaierkang where his duties were sales of medical device products, technical services and company management. For further details of Shenzhen Kaierkang, please refer to the subsection headed "Relationship with Our Controlling Shareholders – Disposed Business – Shenzhen Kaierkang" in this document. He joined our Group in January 2004 and has served as deputy general manager and chief technology officer of Shenzhen Huakang since then.

Mr. Fu obtained a bachelor's degree in science from Wuhan University, the PRC in July 1988.

Mr. Fu has not held any directorships in any public companies, the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years immediately preceding the date of this document.

**Mr. Zeng Zhouxiang (曾周祥)**, aged 40, is the deputy general manager of Shenzhen Huakang. He is mainly responsible for the day-to-day management and assisting on corporate governance matters of our Group. Mr. Zeng has over 15 years of experience in the IVD reagents industry in the PRC. He was appointed as production technician of Shenzhen Huakang in July 2000 and was mainly responsible for the production technician of the product of Shenzhen Huakang. He was promoted as production manager from September 2003 to June 2009 and was mainly responsible for the day-to-day management of production department. In June 2009, he was further promoted as deputy general manager of Shenzhen Huakang and was mainly responsible for the development, supervision and management of the quality management system of Shenzhen Huakang.

Mr. Zeng obtained a bachelor's degree of engineering from South China University of Technology, the PRC in July 2000.

Mr. Zeng has not held any directorships in any public companies, the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years immediately preceding the date of this document.

## COMPANY SECRETARY

**Mr. Chau Lai Ki (周麗麒)** was appointed as our company secretary on 25 September 2017. He is also the financial controller of our Group. For his qualifications and experience, please refer to the paragraph headed "Senior Management" in this section.

## AUTHORISED REPRESENTATIVES

**Mr. Poon Lai Yin Michael (潘禮賢)** and **Mr. Zhang Shuguang (張曙光)** have been appointed as the authorised representatives of our Company under Rule 5.24 of the GEM Listing Rules.

## COMPLIANCE OFFICER

**Mr. Poon Lai Yin Michael (潘禮賢)** was appointed as the compliance officer of our Company on 25 September 2017. For his qualifications and experience, please refer to the paragraph headed "Executive Directors" in this section.

## BOARD COMMITTEES

### Audit committee

Our Company established the audit committee on 26 November 2018 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and paragraph C.3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the audit committee are mainly to make recommendations to the Board on the appointment and removal of external auditors; review the financial statements and material advice in respect of financial reporting; and oversee internal control procedures of our Company. The audit committee currently consists of three Independent Non-executive Directors, namely Mr. Kwok Chi Shing, Dr. Yeung David Wai Chow and Mr. Chan Kin Sang with Mr. Kwok Chi Shing as the chairman of our audit committee.

### Remuneration committee

Our Company established the remuneration committee on 26 November 2018 with written terms of reference in compliance with Rules 5.34 to 5.36 of the GEM Listing Rules and paragraph B.1 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the remuneration committee are to make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group; review performance based remuneration; and ensure none of our Directors determine their own remuneration. The remuneration committee currently consists of three members, namely Mr. Kwok Chi Shing, Dr. Yeung David Wai Chow and Mr. Zhang Chunguang with Mr. Kwok Chi Shing being the chairman of our remuneration committee.

### Nomination committee

Our Company established the nomination committee on 26 November 2018 with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the nomination committee are to review the structure, size and composition of the Board on a regular basis; identify individuals suitably qualified to become Board members; assess the independence of Independent Non-executive Directors; and make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors. The nomination committee currently consists of three members, namely Mr. Zhang, Dr. Yeung David Wai Chow and Mr. Chan Kin Sang with Mr. Zhang being the chairman of our nomination committee.

## CORPORATE GOVERNANCE

Our Company will comply with the Corporate Governance Code and Corporate Governance Report set out in Appendix 15 to the GEM Listing Rules and the associated GEM Listing Rules. Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code and Corporate Governance Report each financial year and comply with the "comply or explain" principle in our corporate governance report which will be included in our annual reports upon the **[REDACTED]**.

## REMUNERATION OF DIRECTORS AND EMPLOYEES

The aggregate amount of salaries and other benefits, discretionary bonuses, retirement benefits scheme contributions paid by us to our Directors (including emoluments for services as employees or directors of any member of our Group prior to their appointments as our Directors) for FY2015, FY2016, FY2017 and five months ending 31 May 2018 was RMB330,000, RMB346,000, RMB435,000 and RMB190,000 respectively.

The five highest paid individuals include two Directors whose emoluments are disclosed above. The aggregate amount of salaries and other benefits, discretionary bonuses, retirement benefits scheme contributions paid by us to the remaining three individuals of our Group, for each of FY2015, FY2016, FY2017 and five months ending 31 May 2018 was RMB441,000, RMB461,000, RMB560,000 and RMB249,000 respectively.

During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office. In addition, none of our Directors has waived any emoluments during the Track Record Period.

Save as disclosed, no other payments have been paid or are payable to our Directors or the five highest paid individuals by our Group during the Track Record Period.

Under the arrangements currently in force, the aggregate remuneration of our Directors paid or payable (including benefits in kind but excluding any discretionary bonus which may be paid) in respect of the year ending 31 December 2018 is estimated to be RMB627,000.

For details of the employees of our Group, including staff remuneration policy provided by our Group, please refer to the subsection headed "Business – Employees" in this document.

## REMUNERATION POLICY

The Director's fee for each of our Directors is subject to the Board's review from time to time in its discretion after taking into account the recommendation of our remuneration committee. The remuneration package of each of our Directors is determined by reference to the relevant Directors' experience, responsibility, workload and the time devoted to our Group. Our Directors are entitled to statutory benefits as required by law from time to time such as contributions to the social insurance scheme.

Prior to the **[REDACTED]**, the remuneration policy of our Group to reward its employees and executives is based on their performance, qualifications, competence displayed and market comparable. Remuneration package typically comprises salaries and other benefits, discretionary bonuses, retirement benefits scheme contributions. Upon and after the **[REDACTED]**, the remuneration package of our Directors and the senior management will, in addition to the above factors, be linked to the return to the Shareholders. The remuneration committee will review annually the remuneration of all our Directors to ensure that it is attractive enough to attract and retain a competent team of executive members.

## DIRECTORS' COMPETING INTERESTS

None of our Directors and their respective close associates are interested in any business which competes or is likely to compete with that of our Group.

## COMPLIANCE ADVISER

Our Company has appointed RHB Capital as our compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules. Pursuant to Rule 6A.23 of the GEM Listing Rules, the compliance adviser will advise our Company in the following circumstances:

(i) before the publication of any regulatory announcement, circular or financial report;

(ii) where a transaction, which might be a notifiable or connected transaction under the GEM Listing Rules, is contemplated by our Group, including share issues and share repurchases;

(iii) where our Company proposes to **[REDACTED]** of the **[REDACTED]** in a manner different from that detailed in this document or where the business activities, developments or results deviate from any forecast, estimate or other information in this document; and

(iv) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares or any other matters under Rule 17.11 of the GEM Listing Rules.

The term of this appointment shall commence on the **[REDACTED]** and is expected to end on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of the financial results for the second full financial year after the **[REDACTED]**, or until the agreement is terminated, whichever is the earlier.

Since 2016, our Group has rented certain properties situated at the Junxuan Property from Shenzhen Junxuan to use as our production plant. In September 2017, we entered into the Tenancy Agreement with Shenzhen Junxuan, details of which are set out in the paragraph headed "Tenancy Agreement" in this section. Shenzhen Junxuan is wholly owned by Mr. Zhang, our Controlling Shareholder, Executive Director and chairman of our Board, and it principally engages in rentals and development of industrial parks in China. For further details on Shenzhen Junxuan, please refer to the subsection headed "Relationship with Our Controlling Shareholders – Excluded Business – Shenzhen Junxuan" in this document. Since Shenzhen Junxuan will become an associate of Mr. Zhang pursuant to Rule 20.10(1)(c) of the GEM Listing Rules upon the **[REDACTED]**, it will become a connected person of our Company as defined under the GEM Listing Rules. The transaction under the Tenancy Agreement is carried out on a continuing basis and is expected to continue after the **[REDACTED]** therefore will constitute a continuing connected transaction. Details of the continuing connected transaction are set out below.

## FULLY-EXEMPT CONTINUING CONNECTED TRANSACTION

### Tenancy Agreement

On 13 September 2017, the Tenancy Agreement was entered into between Shenzhen Huakang (as tenant) and Shenzhen Junxuan (as landlord), pursuant to which Shenzhen Junxuan agrees to rent out Junxuan Property to Shenzhen Huakang for a term of three years commencing on 14 September 2017 and ending on 13 September 2020 at a monthly rental of RMB37,067.2. By a letter of undertaking issued by Shenzhen Junxuan dated 27 September 2017, Shenzhen Junxuan undertakes to renew the Tenancy Agreement on the same terms for a period of additional three years if Shenzhen Huakang raise such renewal request two months prior to the expiry of the Tenancy Agreement. The rent is exclusive of management fee, utility charges and other service charges. The rental under the Tenancy Agreement is based on RMB10 per sq.m. per month, and was determined after arm's length negotiations between the parties thereto with reference to the market rent payable for comparable premises in similar locations. The aggregate amounts of rent paid by us to Shenzhen Junxuan were nil, RMB111,201, RMB444,806 and RMB203,483 for FY2015, FY2016, FY2017 and five months ended 31 May 2018 respectively.

LCH (Asia-Pacific) Surveyors Limited, our independent property valuer, has reviewed the Tenancy Agreement and conducted market research on rental of comparable properties in relevant area in Shenzhen. LCH (Asia-Pacific) Surveyors Limited has confirmed that the rental payable under the Tenancy Agreement are comparative to the market level of similar properties in the locality and was fair and reasonable as at the date of the Tenancy Agreement.

Considering that the rent under the Tenancy Agreement is in line with market value, our Company intends to continue using Junxuan Property as our production plant after the **[REDACTED]**, which we believe is in the interest of our Company and our Shareholders as a whole in terms of cost and time.

## GEM Listing Rules implications

Mr. Zhang, our Controlling Shareholder, Executive Director and chairman of our Board, holds the entire equity interest in Shenzhen Junxuan. Therefore, Shenzhen Junxuan will become an associate of Mr. Zhang pursuant to Rule 20.10(1)(c) of the GEM Listing Rules upon the **[REDACTED]**, and thus it will be a connected person of our Company under the GEM Listing Rules. Since the transaction under the Tenancy Agreement is carried out on a continuing basis and is expected to extend over a period of time after the **[REDACTED]**, the transaction under the Tenancy Agreement will constitute a continuing connected transaction of our Company under the GEM Listing Rules.

Based on the fixed monthly rent under the Tenancy Agreement, the annual cap, which is calculated based on the annual rental payable by our Group to Shenzhen Junxuan for each of the three years ending 31 December 2020 is expected not to exceed RMB445,000 (which is equivalent to approximately HK$503,000). Each of the applicable percentage ratios as defined in Rule 19.07 of the GEM Listing Rules calculated with reference to the rental annual cap is less than 5% and the annual consideration is less than HK$3.0 million. Accordingly, the transaction under the Tenancy Agreement constitutes a fully exempt continuing connected transaction of our Company under Rule 20.74(1)(c) of the GEM Listing Rules, and is fully exempted from the reporting, annual review, announcement and independent Shareholders' approval requirements under the GEM Listing Rules.

## Confirmation of our Directors and the Sole Sponsor

Our Directors (including our Independent Non-executive Directors) and the Sole Sponsor are of the view that the Tenancy Agreement has been entered in the ordinary and usual course of business of our Group, on normal commercial terms, that are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

## OUR CONTROLLING SHAREHOLDERS

Immediately after the completion of the **[REDACTED]** and the **[REDACTED]**, our Company will be owned as to **[REDACTED]**% by Crystal Grant, **[REDACTED]**% by Ever Charming,**[REDACTED]**% by Gallizul, **[REDACTED]**% by Holliberg and **[REDACTED]**% by Hilland. On 16 November 2017, Mr. Zhang and Mr. Chang entered into an Acting-in-concert Confirmation, whereby they have confirmed that they are parties acting in concert with respect to Shenzhen Huakang since September 2003 and their intention to continue to act in the above manner with respect to each member of our Group upon the **[REDACTED]** to consolidate their control over our Group, until entering into a letter of termination after the **[REDACTED]**. By virtue of such acting in concert arrangement, Mr. Zhang (through Crystal Grant) and Mr. Chang (through Ever Charming) will be collectively interested in **[REDACTED]**% of our Shares in issue immediately after the completion of the **[REDACTED]** and the **[REDACTED]**. As such, Mr. Zhang, Mr. Chang and their respective holding companies will be regarded as our Controlling Shareholders together, directly or indirectly, entitled to exercise or control the exercise of 30% or more of the voting power at the general meeting of our Company. For further details on the Acting-in-concert Confirmation, please refer to the subsection headed "History and Reorganisation – Our Group Structure Prior to the Reorganisation" in this document.

Save as mentioned above, there is no other person who will, immediately following the completion of the **[REDACTED]** and the **[REDACTED]**, be directly or indirectly interested in 30% or more of the Shares in issue.

## EXCLUDED BUSINESS

While our Group principally engages in the research and development, manufacture and sales of a wide range of IVD reagents in China, Mr. Zhang, one of our Controlling Shareholders, currently has interests in other business, namely Shenzhen Junxuan which principally engages in rental and development of industrial parks in China. In order to facilitate the **[REDACTED]** of our core business, and to expedite the implementation of our strategic direction and development plans, the Excluded Business of Shenzhen Junxuan that is unrelated to our core business will not form part of our Group after the Reorganisation. For further details about the Reorganisation, please refer to the subsection headed "History and Reorganisation – Reorganisation" in this document.

### Shenzhen Junxuan

Shenzhen Junxuan was established in the PRC with limited liability on 29 August 1997, and principally engages in rentals and development of industrial parks in China. During the Track Record Period but prior to July 2017, Shenzhen Junxuan was owned as to 90% by Mr. Zhang and 10% by an Independent Third Party. Pursuant to an equity transfer agreement dated 27 June 2017, Mr. Zhang acquired 10% of the equity interest in Shenzhen Junxuan from the Independent Third Party at the consideration of RMB3.0 million, which was determined with reference to the paid-up capital of Shenzhen Junxuan as at 27 June 2017. The consideration was fully settled on 18 August 2017. As confirmed by our PRC Legal Advisers, the transaction was registered with Shenzhen MSA on 10 July 2017 and the equity transfer has fulfilled the necessary legal procedures such as the filing requirement of industrial and commercial registration, which complies with the relevant provisions of PRC laws.

At the Latest Practicable Date, Shenzhen Junxuan is wholly owned by Mr. Zhang. Currently, Mr. Zhang, our Controlling Shareholder and Executive Director, is the director, chairman of the board and legal representative of Shenzhen Junxuan. Save for Mr. Zhang, there is no overlapping of any other Directors or management personnel between our Group and the Excluded Business as at the Latest Practicable Date.

**Reasons for non-inclusion of the Excluded Business**

Our Directors are of the view that there is a clear delineation between the Excluded Business and the core business of the Group. Shenzhen Junxuan principally engages in rental and development of industrial parks in China, and will not compete or is expected to compete, directly and indirectly with our principal business in the research and development, manufacture and sales of a wide range of IVD reagents in China. Further, to enable our Group and our management team to focus our resources and attention in developing and realising the full potential of our core business, Shenzhen Junxuan will not form part of our Group after the Reorganisation. As at the Latest Practicable Date, our Directors confirmed that they have no current plan to inject the Excluded Business into our Group. To the best of our Directors' knowledge, Shenzhen Junxuan has no present plan or intention to expand its business beyond its current scope.

Save as disclosed in this section and the section headed "History and Reorganisation" in this document, none of our Controlling Shareholders, our Directors, substantial shareholder and their respective close associates is interested in any other businesses which compete or may compete, whether directly or indirectly, with our business and would require disclosure under Rule 11.04 of the GEM Listing Rules. To ensure that competition will not exist in the future, each of our Controlling Shareholder has entered into the Deed of Non-competition in favour of our Company to the effect that each of them will not, and will procure each of their respective close associates not to, directly or indirectly participate in, or hold any right or interest, or otherwise be involved in any business which may be in competition with our businesses. For details of the non-competition undertakings given by each of our Controlling Shareholders, please refer to the paragraph headed "Non-competition Undertakings from Our Controlling Shareholders" in this section.

Since 2016, our Group has rented certain properties from Shenzhen Junxuan to use as our production plant. In September 2017, we entered into the Tenancy Agreement with Shenzhen Junxuan, the transaction under which is expected to continue after the **[REDACTED]** and will constitute a continuing connected transaction. For further details, please refer to the section headed "Connected Transactions" in this document.

## DISPOSED BUSINESS

During the Track Record Period but prior to September 2017 (date of disposal), Shenzhen Junxuan was interested in 90% of the equity interest in Shenzhen Kaierkang, which was principally engaged in the sales of clinical analysis devices and diagnostic reagents. As Shenzhen Kaierkang has ceased all its business since April 2014 and was loss-making, Shenzhen Junxuan has decided to dispose of Shenzhen Kaierkang in September 2017.

**Shenzhen Kaierkang**

Shenzhen Kaierkang was established in the PRC with limited liability on 13 January 2000 and was owned as to 90% by Shenzhen Junxuan and 10% by an Independent Third Party.

Since April 2014, as Shenzhen Kaierkang was inactive and did not have any material contribution to the results of operation of Shenzhen Junxuan, to avoid incurrence of administrative expenses for the maintenance of Shenzhen Kaierkang and with a view to streamlining Shenzhen Junxuan's structure, Shenzhen Junxuan has disposed Shenzhen Kaierkang in its own interest.

Prior to the cessation of business of Shenzhen Kaierkang in April 2014, our Group and Shenzhen Kaierkang had a different principal business nature. Our Group specialised in the research and development, manufacture and sale of a wide range of IVD reagents in China. We sold our products through (i) direct sales and (ii) our distributors to end users, mainly hospitals and medical institutions in China. Shenzhen Kaierkang, on the other hand, was a distributor with a focus on supplying medical diagnostic apparatus and diagnostic reagents to the hospitals in Shenzhen. It only sourced medical diagnostic apparatus and diagnostic reagents from suppliers and did not involve in research and development or manufacturing of the products distributed.

Our Group and Shenzhen Kaierkang also had a different product portfolio. Our product portfolio of IVD reagents comprises (i) male fertility IVD reagents, (ii) parasite antibody detection reagents and (iii) an EBV antibody detection reagent. For details, please refer to the section headed "Business – Our Products" in this document. On the other hand, Shenzhen Kaierkang's product portfolio of medical diagnostic apparatus comprises microplate reader, microplate washer and microbial culture system, etc. and its product portfolio of diagnostic reagents comprises serum biological diagnostic reagent, immunoassay reagents and bacterial culture identification reagents, etc.. There is no overlap of the products between the business of our Group and business of Shenzhen Kaierkang.

In light of the above, in particular, considering the differences in business nature and product portfolio between our Group and the Disposed Business, our Directors are of the view that there is clear delineation between the Disposed Business and our business and there is no competition between the Disposed Business and our business. Shenzhen Kaierkang has ceased all business operations since April 2014, because Shenzhen Junxuan decided to concentrate its investment on the principal business of Shenzhen Huakang.

Upon the cessation of business of Shenzhen Kaierkang in April 2014, from 2015 until the disposal, Shenzhen Kaierkang was a loss-making company due to certain administrative expenses. On 14 September 2017, Shenzhen Junxuan and an Independent Third Party entered into an equity transfer agreement, pursuant to which the Independent Third Party acquired 90% of the equity interest of Shenzhen Kaierkang from Shenzhen Junxuan at a nominal consideration of RMB1. The consideration was fully settled on 17 October 2017. As confirmed by our PRC Legal Advisers, the disposal has fulfilled the necessary legal procedures such as the filing requirement of industrial and commercial registration, which complies with the relevant provisions of PRC laws. Subsequently, Shenzhen Junxuan ceases to have any interest in the Disposed Business. Immediately following the disposal, Mr. Fu Jianhua, a member of our senior management and Mr. Zhang, our Controlling Shareholder and Executive Director have resigned from their respective positions as director, chairman and legal representative, and director in Shenzhen Kaierkang, respectively.

The following table sets out the revenue, net loss and cash flows of Shenzhen Kaierkang from FY2015 to the date of disposal, which was extracted from the unaudited financial statements of Shenzhen Kaierkang:

| | Year ended 31 December | | From 1 January 2017 to 14 September 2017 (date of disposal) |
|---|---|---|---|
| | **2015** | **2016** | |
| | *RMB* | *RMB* | *RMB* |
| Revenue | – | – | – |
| Net loss | (1,075) | (1,338) | (496) |
| Net cash used in operation before working capital changes | (1,075) | (1,338) | (496) |
| Net cash used in operating activities | (21,075) | (1,338) | (496) |

Based on the above, our Directors are of the view that the financial performance of Shenzhen Kaierkang had no material impact to the revenue, net profit and cash flows of our Group during the Track Record Period if Shenzhen Kaierkang were to be included into our Group. As advised by our PRC Legal Advisers, according to the financial information and confirmation letter provided by Shenzhen Kaierkang, during the Track Record Period, Shenzhen Kaierkang (1) was not found to be in breach of the applicable rules, laws and regulations of the PRC that had material adverse impact on the **[REDACTED]**; (2) was not found to have material non-compliance records relating to tax in the competent tax authorities and (3) was not the subject of any disputes, claims, litigation, arbitration, investigations or administrative punishment that had material adverse impact on the **[REDACTED]** prior to the disposal by our Group in September 2017.

As at the Latest Practicable Date, there is no overlapping of any Directors or management personnel between our Group and Shenzhen Kaierkang.

## RULE 11.04 OF THE GEM LISTING RULES

Save as disclosed above, each of our Controlling Shareholders, our Directors and their respective close associates does not have any interest in any business, apart from the business operated by members of our Group, that compete, directly or indirectly with the business of our Group, and would require disclosure pursuant to Rule 11.04 of the GEM Listing Rules.

## NON-COMPETITION UNDERTAKINGS FROM OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders (each a "**Covenantor**" and collectively, the "**Covenantors**") entered into the Deed of Non-competition in favour of our Company (for ourselves and as trustee for each of our subsidiaries), under which each of the Covenantors has irrevocably and unconditionally, jointly and severally, undertakes to and covenants with our Company (for ourselves and as trustee for each of our subsidiaries) that:

(a) he/it shall not, and shall procure each of his/its close associates and/or companies controlled by him/it (excluding any member of our Group) not to, whether on his/its own account or in conjunction with or on behalf of any person, firm or company and whether directly or indirectly, carry on a business which is, or be interested or involved or engaged in or acquire or hold any rights or interest or otherwise involved in (in each case whether as an investor, a shareholder, partner, principal, agent, director, employee, consultant or otherwise and whether for profit, reward, interest or otherwise) any business which competes or is likely to compete directly or indirectly with the business currently and from time to time engaged by our Group in Hong Kong, the PRC and any other country or jurisdiction to which our Group provides such services and/or products and/or in which any member of our Group carries on business from time to time;

(b) if he/it and/or any of his/its close associates and/or companies controlled by him/it (excluding any member of our Group) is offered or becomes aware of any project or new business opportunity (the "**New Business Opportunity**") that relates to the Restricted Business, whether directly or indirectly, he/it shall give our Group a first right of refusal to participate or engage in such New Business Opportunity by: (i) promptly within ten (10) Business Days notify or procure the relevant close associate and/or the companies controlled by him/it to notify our Group in writing of such New Business Opportunity and provide such information as is reasonably required by our Group in order to enable our Group to come to an informed assessment of such New Business Opportunity; and (ii) use his/its best endeavours to procure that such New Business Opportunity is offered to our Group on terms no less favourable than the terms on which such opportunity is offered to him/it and/or his/its close associates and/or companies controlled by him/it;

(c) he/it shall provide our Group and our Directors (including our Independent Non-executive Directors) with all information necessary, including but not limited to monthly turnover records and any other relevant documents considered necessary by our Independent Non-executive Directors from time to time, for the annual review by our Independent Non-executive Directors with regard to compliance and enforcement of the terms of Deed of Non-competition;

(d) (i) he/it will not and will procure that none of his/its close associates and/or companies controlled by him/it (excluding any member of our Group) will solicit or entice away from any member of our Group any existing or then existing directors, employees, customers or suppliers of any member of our Group; and

(ii) he/it will not without the consent from our Company, make use of any information pertaining to the business of our Group which may have come to his/its knowledge in his/its capacity as the Controlling Shareholder of our Company for any purposes.

The non-competition undertaking will take effect from the date on which dealings in the Shares first commence on the Stock Exchange and will cease to have any effect upon the earliest of the date on which (a) (i) such Covenantor, his/its close associates and parties acting in concert with him/it, individually or taken as a whole, cease to own, in aggregate, 30% or more of the then issued share capital of our Company directly or indirectly or cease to be deemed as a Controlling Shareholder and do not have power to control our Board; and (ii) Mr. Chang and Mr. Zhang each ceases to be a Director; or (b) our Shares cease to be **[REDACTED]** and **[REDACTED]** on the Stock Exchange or other recognised stock exchange.

**CORPORATE GOVERNANCE MEASURES**

Our Company will adopt the following measures to manage the conflict of interests arising from competing business and to safeguard the interests of our Shareholders:

(1) our Independent Non-executive Directors will review, on a quarterly basis, the Deed of Non-Competition to ensure (i) compliance with the non-compete undertaking by our Controlling Shareholders; and (ii) all the decisions taken in relation to whether to pursue the New Business Opportunity under the Deed of Non-Competition;

(2) our Company will disclose any decisions on matters reviewed by our Independent Non-executive Directors relating to compliance and enforcement of the Deed of Non-Competition either through our annual reports or by way of announcement;

(3) our Company will disclose in the corporate governance report of our annual report on how the terms of the Deed of Non-Competition have been complied with and enforced;

(4) any transaction between (or proposed to be made between) our Company and the connected persons will be required to comply with the Chapter 20 of the GEM Listing Rules, including, where applicable, the announcement, reporting, annual review and independent Shareholders' approval requirements and with those conditions imposed by the Stock Exchange for the granting of waiver from strict compliance with the relevant requirements under the GEM Listing Rules; and

(5) in the event that any of our Directors and/or their respective close associates has material interest in any matter to be deliberated by our Board in relation to compliance and enforcement of the Deed of Non-Competition, he/she may not vote on the resolution of our Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles of Association.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders and his/its associates and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

## INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

### Management Independence

Our management and operational decisions are made by our Board and senior management. Our Board comprises three Executive Directors and three Independent Non-executive Directors. Notwithstanding that Mr. Zhang, a Controlling Shareholder and an Executive Director and Mr. Chang, a Controlling Shareholder and a member of our senior management, we consider that our Board and senior management will function independently from our Controlling Shareholders because:

(a) each Director is aware of his fiduciary duties as a Director of our Company which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest;

(b) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in forming quorum subject to the provision of our Articles of Association;

(c) our Board comprises six Directors and three of them are Independent Non-executive Directors, which represents more than one-third of the members of the Board. This is in line with the GEM Listing Rules; and

(d) Save for Mr. Chang, all our senior management members are independent from our Controlling Shareholders. Most of them have substantial experience in the IVD reagents industry and are responsible to manage our Group's daily operations.

Taking into consideration the reasons set out above, we believe our Directors and senior management will be able to perform their roles in our Company independently and our Company is capable of managing its business independently from our Controlling Shareholders after the completion of the **[REDACTED]**.

### Financial Independence

We have our own accounting and finance department and independent financial system and make financial decisions according to our own business needs. We also have independent access to third party financing.

During the Track Record Period, one bank borrowing of our Group was secured by two personal guarantees and one corporate guarantee provided by Mr. Zhang and Mr. Chang, and Shenzhen Junxuan respectively. Such bank borrowing has been repaid, the above personal and corporate guarantees have been released in August 2017. For details, please refer to the subsection headed "Financial Information – Indebtedness" and note 26 in the Accountant's Report set out in Appendix I to this document.

During the Track Record Period, our Group had an amount due to Mr. Chang, our Controlling Shareholder. Such amount due to Mr. Chang has been fully settled at the end of December 2017.

In view of our Group's internal resources and the estimated net proceeds from the **[REDACTED]**, our Directors believe that our Group will have sufficient capital for its financial needs without dependence on our Controlling Shareholders. Our Directors further believe that, upon the **[REDACTED]**, our Group is capable of obtaining financing from external sources independently without the support of our Controlling Shareholders. Therefore, our Group is financially independent from our Controlling Shareholders and/ or any of their respective associates.

**Operational Independence**

Our Group has established our own organisational structure made up of individual departments, each with specific areas of responsibilities. We have sufficient operational resources, such as office premises, sales and marketing and general administration resources, to operate our business independently. Our Group has also established a set of internal controls to facilitate the effective operation of our business.

Save as disclosed in the section headed "Connected Transactions" in this document, our Group does not currently have any intention to enter into any other transactions with our Controlling Shareholders and their associates and, if such event happens in the future, the continuing connected transactions will be conducted in compliance with the GEM Listing Rules. Though there will be a continuing connected transaction between our Group and an associate of one of our Controlling Shareholders after **[REDACTED]**, the transaction is entered into in the ordinary and usual course of business of our Group on normal commercial terms, fair and reasonable and in the interests of our Company and our Shareholders as a whole. Accordingly, our Directors consider that there is no operational dependence by our Group on our Controlling Shareholders or their associates.

**[REDACTED]**

# RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

**[REDACTED]**

## SUBSTANTIAL SHAREHOLDERS

So far as is known to our Directors, immediately following completion of the **[REDACTED]** and the **[REDACTED]**, the following persons will have an interest or short positions in our Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

### Interests and Long Positions in our Shares

| | | As at the date of this document | | Immediately following the completion of the [REDACTED] and the [REDACTED] | |
|---|---|---|---|---|---|
| **Name of Shareholder** | **Nature of interests** | **Number of Shares** | **Percentage of shareholding** | **Number of Shares** *(Note 1)* | **Percentage of shareholding** |
| Crystal Grant | Beneficial owner; interest held jointly with another person *(Notes 2 and 5)* | 10,000 | 80% | **[REDACTED]** (L) | **[REDACTED]**% |
| Ever Charming | Beneficial owner; interest held jointly with another person *(Notes 3 and 5)* | 10,000 | 80% | **[REDACTED]** (L) | **[REDACTED]**% |
| Mr. Zhang | Interest in a controlled corporation; interest held jointly with another person *(Notes 2 and 5)* | 10,000 | 80% | **[REDACTED]** (L) | **[REDACTED]**% |
| Mr. Chang | Interest in a controlled corporation; interest held jointly with another person *(Notes 3 and 5)* | 10,000 | 80% | **[REDACTED]** (L) | **[REDACTED]**% |
| Gallizul | Beneficial owner *(Note 4)* | 1,500 | 12% | **[REDACTED]** (L) | **[REDACTED]**% |
| Ms. Huang Yan | Interest in a controlled corporation *(Note 4)* | 1,500 | 12% | **[REDACTED]** (L) | **[REDACTED]**% |

*Notes:*

Note 1: The letter "L" denotes the long position (as defined under Part XV of the SFO) in such Shares.

Note 2: Crystal Grant is beneficially owned as to 100% by Mr. Zhang. Mr. Zhang is deemed to be interested in all the Shares held by Crystal Grant for the purpose of the SFO.

Note 3: Ever Charming is beneficially owned as to 100% by Mr. Chang. Mr. Chang is deemed to be interested in all the Shares held by Ever Charming for the purpose of the SFO.

Note 4: Gallizul is beneficially owned as to (i) 50% by Ms. Huang Yan, (ii) 8.33% by ACE Fortune Business Limited, (iii) 8.33% by Mr. Chiu Wai Keung, (iv) 16.67% by Mr. Liu Huajun, and (v) 16.67% by Mr. Tsoi Kong Kenman. As Ms. Huang Yan controls one-third or more of the voting rights at the general meetings of Gallizul, Ms. Huang Yan is deemed to be interested in all the Shares held by Gallizul.

Note 5: Immediately following the completion of **[REDACTED]** and the **[REDACTED]**, Mr. Zhang is interested in **[REDACTED]** Shares held by Crystal Grant and Mr. Chang is interested in **[REDACTED]** Shares held by Ever Charming. Pursuant to the Acting-in-concert Confirmation dated 16 November 2017, Mr. Zhang and Mr. Chang have confirmed, among others, (i) they are parties acting in concert with respect to Shenzhen Huakang since September 2003 as well as their intention to continue to act in the above manner with respect to each member of our Group upon the **[REDACTED]** to consolidate their control over our Group, and (ii) having further undertaken that, during the period when they were/are contemporaneously the shareholders of any members of our Group, until entering into a letter of termination at any time after the **[REDACTED]**, they will maintain the acting in concert relationship with respect to each member of our Group. As such, Mr. Zhang and Mr. Chang are collectively deemed to be interested in all the Shares held by Crystal Grant and Ever Charming under the SFO.

Save as disclosed herein, none of our Directors is aware of any other person who will, immediately following the **[REDACTED]** and the **[REDACTED]**, have an interest or short position in our Shares and the underlying Shares which would fall to be disclosed to our Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or will be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of our Group. None of our Directors is aware of any arrangement which may at a subsequent date result in a change of control of our Company.

## AUTHORISED AND ISSUED SHARE CAPITAL

The following is a description of the authorised and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and following completion of the **[REDACTED]** and the **[REDACTED]**:

| **Authorised share capital:** | | *HK$* |
|---|---|---|
| 1,000,000,000 | Shares of HK$0.01 each | 10,000,000 |
| **Shares issued and to be issued, fully paid or credited as fully paid:** | | |
| 12,500 | Shares in issue at the date of this document | 125 |
| **[REDACTED]** | Shares to be issued pursuant to the **[REDACTED]** | **[REDACTED]** |
| **[REDACTED]** | Shares to be issued pursuant to the **[REDACTED]** | **[REDACTED]** |
| **Total:** | | |
| **[REDACTED]** | Shares | **[REDACTED]** |

## ASSUMPTIONS

The above table assumes that the **[REDACTED]** becomes unconditional and the issue of Shares pursuant to the **[REDACTED]** and **[REDACTED]** are made. It takes no account of any Shares which may be issued or repurchased by our Company pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

## MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of the **[REDACTED]** and at all times thereafter, our Company must maintain the minimum prescribed percentage of 25% of the total issued share capital of our Company in the hands of the public (as defined in the GEM Listing Rules).

## RANKINGS

The **[REDACTED]** will rank *pari passu* in all respects with all Shares in issue or to be issued as mentioned in this document, and in particular, will be entitled to all dividends or other distributions hereafter declared, paid or made on our Shares after the date of this document save for entitlements under the **[REDACTED]**.

## GENERAL MANDATE TO ISSUE SHARES

Subject to the **[REDACTED]** becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares in the share capital of our Company with a total number of not more than the sum of:

(a) 20% of the total number of Shares of our Company in issue immediately following the completion of **[REDACTED]** and the **[REDACTED]**; and

(b) the total number of Shares of our Company repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares granted to our Directors referred to below.

Our Directors may, in addition to our Shares which they are authorised to issue under this general mandate, allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or on the exercise of any option granted.

This mandate will expire:

(i) at the conclusion of our Company's next annual general meeting; or

(ii) upon the expiry of the period within which our Company is required by any applicable law or the Articles to hold its next annual general meeting; or

(iii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting,

whichever occurs first.

Further information on this general mandate is set out in the subsection headed "A. Further Information about Our Company and Our Subsidiaries – 3. Written Resolutions of Our Shareholders Passed on 26 November 2018" in Appendix IV to this document.

## GENERAL MANDATE TO REPURCHASE SHARES

Subject to the **[REDACTED]** becoming unconditional, our Directors have been granted a general mandate to exercise all the powers of our Company to repurchase Shares with a total number of not more than 10% of the total number of Shares of our Company in issue immediately following the completion of the **[REDACTED]** and the **[REDACTED]**.

This mandate only relates to repurchases made on the Stock Exchange or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the subsection headed "A. Further Information about Our Company and Our Subsidiaries – 6. Repurchase by Our Company of Its Own Securities" in Appendix IV to this document.

This mandate will expire:

(i) at the conclusion of our Company's next annual general meeting;

(ii) upon the expiry of the period within which our Company is required by any applicable law or the Articles to hold its next annual general meeting; or

(iii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting;

whichever occurs first.

Further information on this general mandate is sets out in the subsection headed "A. Further Information about Our Company and Our Subsidiaries – 3. Written Resolutions of Our Shareholders Passed on 26 November 2018" in Appendix IV to this document.

## SHAREHOLDERS' GENERAL MEETING

Please refer to the section headed "Summary of the Constitution of our Company and the Cayman Islands Company Law" in Appendix III to this document in respect of circumstances under which general meeting and class meeting are required.

*You should read the following discussion in conjunction with the consolidated financial statements included in the Accountants' Report and the notes thereto included in Appendix I to this document and the selected historical financial information and operating data included elsewhere in this document. The consolidated financial statements have been prepared in accordance with HKFRSs.*

*Our historical results do not necessarily indicate results expected for any future periods. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of any number of factors, including those set forth in "Forward-looking Statements" and "Risk Factors".*

*The financial information extracted from our consolidated financial statements as at and for FY2015, FY2016, FY2017 and the five months ended 31 May 2018 included in this document is audited. Financial information as at or for any period subsequent to 31 May 2018 included in this document is derived from management accounts and is therefore unaudited.*

## OVERVIEW

We are a medical device group specialised in the research and development, manufacture and sale of a wide range of IVD reagents in China. Leveraging on our knowledge and experience, our Group is particularly focused on the PRC male fertility IVD reagent market. We ranked the third among all manufacturers of male fertility IVD reagents in China, having 14.3% share of this market in terms of medical institution purchase value in 2017, according to the CIC Report. We offer a variety of IVD reagents ranging from male fertility IVD reagents to parasite antibody detection reagents and an EBV antibody detection reagent, as well as auxiliary reproductive supplies and equipment. During the Track Record Period, we manufactured and sold 27 IVD reagents which comprised 24 male fertility IVD reagents, two parasite antibody detection reagents and one EBV antibody detection reagent. One of our parasite antibody detection reagents is among the only two liver fluke IVD reagents which the CFDA has approved for manufacture and sale in China up to the Latest Practicable Date.

Our revenue growth during the Track Record Period demonstrated our ability to capitalise on our market position and take advantage of business opportunities arising from the growing PRC IVD market. Our total revenue during the Track Record Period was primarily generated from the sales of male fertility IVD reagents, which accounted for 87.3%, 87.5%, 85.5% and 80.5% of our total revenue for FY2015, FY2016, FY2017 and the five months ended 31 May 2018, respectively. Our total revenue grew by RMB5.9 million, or by 30.6%, from RMB19.5 million for FY2015 to RMB25.4 million for FY2016. Revenue from the sales of our male fertility IVD reagents increased by RMB5.2 million, or by 30.8%, from RMB17.0 million for FY2015 to RMB22.2 million for FY2016, mainly due to an increase in the sales volume of our male fertility IVD reagents, primarily because the PRC government implemented the universal two-child policy in January 2016 and some of our existing customers increased their purchases of our products. Our total revenue further increased by RMB1.1 million, or by 4.5%, from RMB25.4 million for FY2016 to RMB26.5 million for FY2017, mainly due to increased sales of our parasite antibody detection reagents and male fertility IVD reagents. Our total revenue increased by RMB1.4 million, or by 14.6%, from RMB9.6 million for the five months ended 31 May 2017 to RMB11.0 million for the five months ended 31 May 2018, primarily because of increased sales of our parasite antibody reagents and male fertility IVD reagents.

We sell our products through direct sales and our distributors to hospitals and medical institutions in China, which use our products for diagnostic purposes. We operate a sales and distribution network with a broad geographical coverage of various provinces, autonomous regions and municipalities in China. Revenue from the direct sales of our products increased by RMB2.9 million, or by 26.2%, from RMB11.0 million for FY2015 to RMB13.9 million for FY2016. Such revenue also increased by RMB441,000, or by 3.2%, from RMB13.9 million for FY2016 to RMB14.3 million for FY2017. Such revenue remained stable at RMB5.7 million for the five months ended 31 May 2018, as compared to that of RMB5.7 million for the five months ended 31 May 2017. Moreover, revenue from the sales of our products to our distributors increased by RMB3.1 million, or by 36.3%, from RMB8.4 million for FY2015 to RMB11.5 million for FY2016. Such revenue also increased by RMB690,000, or by 6.0%, from RMB11.5 million for FY2016 to RMB12.2 million for FY2017. Further, such revenue increased by RMB1.5 million, or by 38.6%, from RMB3.9 million for the five months ended 31 May 2017 to RMB5.4 million for the five months ended 31 May 2018. The increases in revenue from the sales of our products to direct sales customers and distributors for FY2016, as compared to FY2015, were mainly attributable to the increased sales of our male fertility IVD reagents. The increase in revenue from the sales of our products to direct sales customer and distributors for FY2017, as compared with FY2016 were mainly attributable to the increased sales of our parasite antibody detection reagents and male fertility IVD reagents. The overall increase in revenue from the sales of our products to direct sales customers and distributors for the five months ended 31 May 2018 as compared with the five months ended 31 May 2017 were mainly attributable to the increase in the sales of male fertility IVD reagents, parasite antibody detection reagents and auxiliary reproductive supplies and equipment of RMB485,000, RMB562,000 and RMB245,000 respectively.

Please refer to the section headed "Business" of this document for further information of our business and operation.

## FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, financial position and results of operations have been, and are expected to continue to be, significantly affected by the following factors:

### Market Demand for Our Products

We are specialised in the research and development, manufacture and sale of a wide range of IVD reagents in the PRC with a particular focus on the PRC male fertility IVD reagent market. Our revenue during the Track Record Period was primarily generated from the sales of male fertility IVD reagents, which accounted for 87.3%, 87.5%, 85.5% and 80.5% of our total revenue for FY2015, FY2016, FY2017 and the five months ended 31 May 2018, respectively. Our customers' demands for male fertility IVD reagents and the overall growth of the PRC male fertility IVD reagent market directly affect our business and financial performance.

According to the CIC Report, the market size of the PRC IVD market in terms of revenue grew from 2012 to 2017. In particular, the PRC male fertility IVD reagent market in terms of medical institution purchase value grew from RMB161.8 million in 2012 to RMB387.6 million in 2017 at a CAGR of 19.1%, and such total revenue is expected to further increase from RMB387.6 million in 2017 to RMB971.4 million by 2023, at an expected CAGR of 16.5%. Such growth is primarily determined by a number of factors, including rising rate of infertility incidences, widespread acceptance of assisted reproductive treatment,

implementation of the universal two-child policy by the PRC government, as well as government support and favourable policies, according to CIC Report. In view of such expected growth, we expect that the market demand for our male fertility IVD reagents in the PRC will continue to grow in the near future, leading to the growth in our revenue and profit.

**Product Mix**

We offer a variety of IVD reagents ranging from male fertility IVD reagents to parasite antibody detection reagents and an EBV antibody detection reagent, as well as auxiliary reproductive supplies and equipment. Our product offerings meet different requirements of our customers and end users in the PRC. Moreover, our products are sold directly or indirectly to public hospitals and medical institutions in the PRC. Public hospitals and medical institutions regularly review the contents of health check and clinical diagnostics, and may adjust the IVD reagents which they would acquire for relevant diagnostic tests. As our products have different gross profit margins depending on a series of factors (such as cost of raw materials, labour costs and product pricing), any change of product mix in relation to customers' procurement may affect our financial performance.

We are committed to further improve our products' characteristics and usages and expand our product range that supports sustainable growth and meets the requirements of our customers and end users by way of our in-house research and development and where necessary, collaboration with research partners.

**Product Pricing**

The pricing of our products directly affects our financial performance and results of operations. Our product prices are determined based on a number of factors, such as sales channels, expected demands of customers and end users for our products, costs of sales, sales regions and selling prices of comparable or similar products of our competitors.

We offer a variety of IVD reagents catering for diagnostic needs from hospitals, medical institutions and other end users. Different sales channels have different profit margins, depending on a series of factors (such as product pricing, selling and distribution expenses and administrative expenses). Selling prices of our products through direct sales are higher than those sold to distributors.

Moreover, our products were sold directly or indirectly to public hospitals and medical institutions in the PRC during the Track Record Period. Most of the public hospitals and medical institutions make substantially all of their purchases of medical devices through a procurement process that mainly involves tendering of relevant products by manufacturers and distributors. Such centralised tender process also indirectly determines the prices at which we sell our products to our distributors.

**Costs of Raw Materials and Staff Costs**

Our cost of sales directly affects our results of operations and profitability. Our revenue was primarily generated from the sales of our self-manufactured IVD reagents, which accounted for over 93.0% of our revenue during the Track Record Period. The major components of our cost of sales for our self-manufactured IVD reagents include costs of raw materials and staff costs. We also generated revenue from the sales of auxiliary reproductive supplies and equipment purchased from our suppliers. For FY2015,

FY2016, FY2017 and the five months ended 31 May 2018, our costs of raw materials accounted for 44.4%, 43.5%, 44.1% and 43.4% of our cost of sales and our staff costs for personnel involved in our manufacture activities accounted for 30.8%, 32.1%, 35.0% and 31.0% of our cost of sales. During the Track Record Period, our cost of raw materials and staff costs increased primarily because we increased our purchases of raw materials for manufacture of IVD reagents and the average salary levels of our production employees increased due to the supply and demand conditions of local labor market in Shenzhen.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in raw material costs and staff costs on our gross profit and profit before taxation for FY2015, FY2016, FY2017 and the five months ended 31 May 2018, assuming all other variables remained constant. According to the CIC Report, the prices of our key raw materials remained relatively stable from 2012 to 2017, while the labor costs of medical manufacturing industry recorded a CAGR of 8.9% during such period. For the sake of prudence, our Group adopted hypothetical fluctuations of 5%, 10%, 15%, 20% and 25% in performing the sensitivity analysis below:

| | **Changes in gross profit and profit before taxation** | | | |
|---|---|---|---|---|
| | **Year ended 31 December** | | | **Five months ended 31 May** |
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Hypothetical fluctuations of the costs of raw materials and staff costs:** | | | | |
| +/-25% | -/+957 | -/+1,472 | -/+1,584 | -/+529 |
| +/-20% | -/+766 | -/+1,178 | -/+1,267 | -/+423 |
| +/-15% | -/+574 | -/+883 | -/+950 | -/+317 |
| +/-10% | -/+383 | -/+589 | -/+634 | -/+211 |
| +/-5% | -/+191 | -/+294 | -/+317 | -/+106 |

For the illustrative purposes of break-even analysis only, for FY2015, FY2016, FY2017 and the five months ended 31 May 2018, if the cost of raw materials and staff costs had increased by 375.3%, 299.3%, 292.6% and 386.4%, respectively, our overall gross profit for the same periods would have been nil, assuming all other variables remain constant.

**Performance and Expansion of Our Sales and Distribution Network**

The growth of our revenue and profit depends on the performance and expansion of our sales and distribution network across the PRC. Our ability to increase revenue is directly affected by the scale of our sales and distribution network and the effectiveness of our sales and marketing activities in our target markets. Capitalising on the rising customers' demand for our products, we have developed and implemented different sales models for our IVD reagents in the PRC. We sell our products primarily through (i) direct sales to our customers comprising hospitals and medical institutions, and (ii) sales to distributors. Different sales models in the PRC have different profit margins, depending on a series of factors (such as product pricings, selling and distribution expenses and administrative expenses). The gross profit margin

from our direct sales is higher than that from our sales to distributors primarily due to different selling prices. We expect that our revenue and profit growth will continue to depend on our ability to further strengthen and expand our sales and distribution network.

**Preferential Tax Treatment for Our PRC Operations**

PRC preferential tax treatment historically has had a material effect on our financial performance and results of operations. Under the PRC EIT Law and the Implementation Regulations of the PRC EIT Law, the tax rate of the entity established in the PRC is 25%. Since Shenzhen Huakang, our operating subsidiary, is recognised as a "High and New Technology Enterprise" in 2014 and therefore entitled to apply a tax rate of 15%. The entitlement of this tax benefit is subject to renewal by respective tax bureau in the PRC every three years. Please refer to the paragraph headed "– Discussion of Selected Items from the Consolidated Statements of Profit or Loss and Other Comprehensive Income – Income Tax Expense" in this section and the subsection headed "Regulatory Overview – Taxation" in this document for further discussion. The latest entitlement to this tax benefit was granted to Shenzhen Huakang in October 2017 for the next three years.

However, preferential tax treatment granted to Shenzhen Huakang by government authorities is subject to review and may be adjusted or terminated. The discontinuation of any preferential tax treatment currently available to us will cause our effective tax rate to increase, which could have a material adverse effect on our results of operations. Please refer to the subsection headed "Risk Factors – Risks Relating to our Business – If our preferential tax treatments are not received, become unavailable or otherwise change or terminate, it could adversely affect our financial condition and results of operations" in this document for further details.

**CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS FOR CONSISTENCY**

The discussion and analysis of our financial position and results of operations are based on the consolidated financial statements prepared in accordance with HKFRSs to this document. Preparation of our individual and consolidated financial information requires us to make estimates and judgements in applying certain critical accounting policies which may have a significant impact on our consolidated results. We base our estimates on historical experience and other assumptions which our management believes to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions. We did not change our assumptions or estimates in the past. Under current circumstances, we do not expect that our assumptions or estimates are likely to change significantly in the foreseeable future. We set forth below certain accounting policies, estimates and judgments that we believe are important to us in the preparation of our financial statements. Our significant accounting policies, estimates and judgments, which are important for an understanding of our financial condition and results of operations, are set out in notes 4 and 5 to the historical financial information in the Accountants' Report included in Appendix I to this document.

**Effect on the adoption of HKFRS 15 and HKFRS 9**

Our Group has consistently applied HKFRS 15 "Revenue from Contracts with Customers", which are effective for the accounting period beginning on 1 January 2018, throughout the Track Record Period. The application of HKFRS 15 did not have significant impact on the financial position and performance of our Company compared to the requirements of HKAS 18. Our Group has also applied HKFRS 9 "Financial

Instruments", which are effective for the accounting period beginning on 1 January 2018, the application of HKFRS 9 did not have significant impact on our Company's financial position and performance compared to the requirements of HKAS39.

**Revenue Recognition on the Sale of Products**

Revenue is recognised to depict the transfer of promised goods to customers in an amount that reflects the consideration to which our Group expects to be entitled in exchange for those goods. We recognise revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods underlying the particular performance obligation is transferred to customers.

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

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

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

Please refer to Note 4 "Significant Accounting Policies – Revenue Recognition" to the Accountants' Report included in Appendix I to this document for further details of our revenue recognition accounting policy.

**Intangible Assets**

Intangible assets are measured by the amount of capitalised development expenditures less accumulated amortisation and any impairment losses. Capitalised costs mainly include internal salary costs and other incremental costs directly related to the development activities. Expenditures incurred on projects to develop new products are capitalised and deferred only when we can demonstrate that they fulfil the capitalisation criteria as stipulated in HKAS38 Intangible Assets paragraph 57. Please refer to Note 4 "Significant Accounting Policies – Intangible assets" to the Accountants' Report included in Appendix I to this document for further details of our intangible assets accounting policy.

In particular, our Directors confirm that the research and development expenditures capitalized during the Track Record Period can satisfied such capitalization criteria as illustrated below:

***(i) The technical feasibility of completing the intangible asset so that it will be available for use or sale***

As part of our feasibility studies, we assessed the technical feasibility of completing development of relevant products. In addition, our Directors confirm that the research and development expenditure capitalized during the Track Record Period are related to our products which were: (i) registered during the Track Record Period; and (ii) at various stages of clinical trials. As all of our research and development projects were successful during the Track Record Period, our Directors consider that such condition are fulfilled for the pipeline products currently at various stage of clinical trials.

***(ii) The intention to complete the intangible asset and use or sell it***

The research and development expenditure capitalized during the Track Record Period are related to our products which were sold on a standalone basis or for uses in conjunction with our other products. As such, our Directors consider that such condition is fulfilled.

***(iii) The ability to use or sell the intangible asset***

We operate a sales and distribution network with a broad geographical coverage of various provinces autonomous regions and municipalities in China, which can be used for the sales and distribution of any new IVD reagent products developed. As such, our Directors consider that such condition is fulfilled.

***(iv) How the intangible asset will generate probable future economic benefits***

As part of our feasibility studies, we assessed and were satisfied with the potential economic benefit of the new products to our Group. Major factors taken into consideration by us include the expected expenditure of research and development, expected costs of production, market selling price of similar products, expected market demand and synergies with other products of our Group such as our quality control products for uses in conjunction with eight of our male fertility IVD reagents to assure the quality of diagnostic testing results. As such, our Directors consider that this condition is fulfilled.

***(v) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset***

Our Group has developed in-house all of our self-manufactured IVD reagents which up to the Latest Practicable Date comprised 32 male fertility IVD reagents, two parasite antibody detection reagents, one EBV antibody detection reagent and six female fertility IVD reagents. Together with our sales and distribution network in China, our Directors consider that our Group has the adequate resources to complete the development and sales and distribution of our products.

***(vi) The ability to measure reliably the expenditure attributable to the intangible asset during its development.***

As we keep track on the amount of raw materials and staff resources used for the development of our new products, our Directors consider that such condition is fulfilled.

Once development is completed, we utilise those assets capitalised to produce our products. The capitalised assets are generated by work conducted by our internal staff. We keep time sheets to measure the development costs relating to these assets.

Amortisation is calculated on a straight-line basis over the commercial life of five years. Our management assesses impairment based on whether there have been any significant changes with an adverse effect on us historically or that our management may foresee in the near future within our market, economic or legal environment. Taking these factors into consideration, we analyse projected profit margins for each of our products and compare it against the relevant capitalised development costs. Accordingly, there was no indication any of the capitalised development costs would need to be impaired during the Track Record Period.

**Impairment of Trade Receivables**

Prior to 1 January 2018, we take into consideration the estimated future cash flows when there is objective evidence of impairment loss. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Starting from 1 January 2018, we recognise lifetime expected credit losses ("**ECL**") for trade receivables, using a provision matrix based on our Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to our Group in accordance with the contract and all the cash flows that we expect to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

As at 31 December 2015, 31 December 2016, 31 December 2017 and 31 May 2018, the carrying amount of trade receivables, net of allowance for doubtful debts, amounted to RMB7.4 million, RMB9.4 million, RMB9.8 million and RMB11.4 million, respectively.

Please refer to Note 5 "Key Sources of Estimation Uncertainty – Estimated impairment of trade receivables" to the Accountants' Report included in Appendix I to this document for further details on estimations and assumptions for impairment of our trade receivables during the Track Record Period.

## RESULTS OF OPERATIONS

The following table sets forth our consolidated income statement data for the periods indicated, derived from our consolidated statements of profit or loss and other comprehensive income set out in the Accountants' Report included in Appendix I to this document.

| | Year ended 31 December | | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* *(unaudited)* | *RMB'000* |
| **Revenue** | 19,456 | 25,410 | 26,541 | 9,606 | 11,012 |
| Cost of sales | (5,088) | (7,788) | (8,007) | (2,895) | (2,841) |
| Gross profit | 14,368 | 17,622 | 18,534 | 6,711 | 8,171 |
| Other income | 2,151 | 313 | 703 | 73 | 72 |
| Other gains and losses | (89) | (1,453) | 157 | (133) | 63 |
| Selling and distribution expenses | (2,734) | (2,910) | (2,860) | (1,131) | (1,297) |
| Administrative expenses | (1,565) | (2,290) | (3,244) | (880) | (1,776) |
| Research and development expenses | (1,644) | (1,210) | (1,374) | (476) | (557) |
| Finance costs | (1,284) | (128) | (54) | (34) | – |
| **[REDACTED]** | – | – | **[REDACTED]** | – | **[REDACTED]** |
| Profit (loss) before tax | 9,203 | 9,944 | (247) | 4,130 | 2,198 |
| Income tax expense | (1,269) | (1,518) | (1,705) | (595) | (728) |
| **Profit (loss) and total comprehensive income (expense) for the year/period attributable to the owners of our Company** | 7,934 | 8,426 | (1,952) | 3,535 | 1,470 |

## DISCUSSION OF SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

### Revenue

We generate our revenue primarily from the sales of our IVD reagents (including male fertility IVD reagents, parasite antibody detection reagents and an EBV antibody detection reagent) in the PRC. In addition, we derive a small portion of our revenue from the sales of auxiliary reproductive supplies and equipment in the PRC. Our revenue represents the fair value of amounts received and receivable for selling

IVD reagents, as well as auxiliary reproductive supplies and equipment, to customers by our Group in the normal course of business and net of discounts during Track Record Period. It is recognised when our customers have received our products and the relevant invoice has been issued.

Our total revenue grew by RMB5.9 million, or by 30.6%, from RMB19.5 million for FY2015 to RMB25.4 million for FY2016. Our total revenue further increased by RMB1.1 million, or by 4.5%, from RMB25.4 million for FY2016, to RMB26.5 million for FY2017. Our total revenue increased by RMB1.4 million, or by 14.6%, from RMB9.6 million for the five months ended 31 May 2017 to RMB11.0 million for the five months ended 31 May 2018.

***Revenue by Product Category***

The following table sets forth a breakdown of our revenue by product category for the periods indicated:

| | Year ended 31 December | | | | | | Five months ended 31 May | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2016 | | 2017 | | 2017 | | 2018 | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| | | | | | | | *(unaudited)* | | | |
| **IVD reagents** | | | | | | | | | | |
| **Male fertility IVD reagents** | | | | | | | | | | |
| Sperm function test products | 6,859 | 35.3 | 9,613 | 37.9 | 11,027 | 41.5 | 4,229 | 44.0 | 4,459 | 40.5 |
| Accessory genital glands test products | 4,402 | 22.6 | 5,801 | 22.8 | 4,483 | 16.9 | 1,691 | 17.6 | 1,925 | 17.5 |
| Male reproductive tract infection test products | 2,206 | 11.3 | 2,540 | 10.0 | 2,823 | 10.6 | 947 | 9.9 | 1,164 | 10.6 |
| Anti-sperm antibody test products | 2,628 | 13.5 | 3,124 | 12.3 | 2,638 | 9.9 | 1,075 | 11.2 | 889 | 8.0 |
| Others | 903 | 4.6 | 1,152 | 4.5 | 1,719 | 6.6 | 442 | 4.6 | 432 | 3.9 |
| **Subtotal of male fertility IVD reagents** | 16,998 | 87.3 | 22,230 | 87.5 | 22,690 | 85.5 | 8,384 | 87.3 | 8,869 | 80.5 |
| **Parasite antibody detection reagents** | 888 | 4.6 | 1,226 | 4.8 | 1,908 | 7.2 | 505 | 5.3 | 1,067 | 9.7 |
| **EBV antibody detection reagent** | 1,081 | 5.6 | 1,041 | 4.1 | 869 | 3.3 | 215 | 2.2 | 329 | 3.0 |
| **Subtotal of IVD reagents** | 18,967 | 97.5 | 24,497 | 96.4 | 25,467 | 96.0 | 9,104 | 94.8 | 10,265 | 93.2 |
| **Auxiliary reproductive supplies and equipment** | 489 | 2.5 | 913 | 3.6 | 1,074 | 4.0 | 502 | 5.2 | 747 | 6.8 |
| **TOTAL** | 19,456 | 100.0 | 25,410 | 100.0 | 26,541 | 100.0 | 9,606 | 100.0 | 11,012 | 100.0 |

The sales of male fertility IVD reagents contributed primarily to our total revenue during the Track Record Period, accounting for 87.3%, 87.5%, 85.5% and 80.5% of our total revenue for FY2015, FY2016, FY2017 and the five months ended 31 May 2018, respectively.

Our key product portfolio consists of eight major products. The following table sets forth a breakdown of our revenue generated from the sales of our major products for the periods indicated:

| | Year ended 31 December | | | | | | Five months ended 31 May | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2016 | | 2017 | | 2017 | | 2018 | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000 (unaudited)* | *%* | *RMB'000* | *%* |
| **MAJOR PRODUCTS** | | | | | | | | | | |
| **Male fertility IVD reagents** | | | | | | | | | | |
| *Sperm function test products* | | | | | | | | | | |
| Spermatozoa acrosin activity quantitative assay kit (精子頂體酶活性定量檢測試劑盒) | 5,914 | 30.4 | 7,679 | 30.2 | 7,987 | 30.1 | 3,068 | 31.9 | 3,068 | 27.9 |
| Sperm nucleus DNA integrity kit (精子核DNA完整性檢測試劑盒) | 633 | 3.2 | 1,358 | 5.4 | 2,701 | 10.2 | 1,018 | 10.6 | 1,172 | 10.6 |
| *Accessory genital glands test products* | | | | | | | | | | |
| Seminal plasma neutral alpha-glucosidase quantitative assay kit (精漿中性α-葡糖苷酶定量檢測試劑盒) | 2,321 | 11.9 | 3,055 | 12.0 | 2,014 | 7.6 | 691 | 7.2 | 831 | 7.5 |
| Seminal plasma zinc quantitative assay kit (精漿鋅定量檢測試劑盒) | 1,259 | 6.5 | 1,505 | 5.9 | 1,451 | 5.5 | 590 | 6.1 | 649 | 5.9 |
| *Anti-sperm antibody test products* | | | | | | | | | | |
| Spermatozoan surface antibody IgG mixed agglutination reaction kit (精子膜表面抗體IgG檢測試劑盒) | 2,628 | 13.5 | 3,124 | 12.3 | 2,639 | 9.9 | 1,075 | 11.2 | 889 | 8.1 |
| *Male reproductive tract infection test products* | | | | | | | | | | |
| Seminal plasma PMN-elastase quantitative assay kit (精漿彈性硬蛋白酶定量檢測試劑盒) | 1,496 | 7.7 | 1,582 | 6.2 | 1,840 | 6.9 | 612 | 6.4 | 743 | 6.8 |
| **Parasite antibody detection reagents** | | | | | | | | | | |
| Detection kit for IgG antibody to liver fluke (肝吸蟲IgG抗體檢測試劑盒) | 861 | 4.4 | 1,181 | 4.6 | 1,472 | 5.5 | 477 | 5.0 | 685 | 6.2 |
| **EBV antibody detection reagent** | | | | | | | | | | |
| Detection kit for VCA IgA antibody to EBV (EB病毒VCA抗體(IgA)檢測試劑盒) | 1,081 | 5.6 | 1,041 | 4.1 | 869 | 3.3 | 215 | 2.2 | 329 | 3.0 |
| **Major products subtotal** | **16,193** | **83.2** | **20,525** | **80.7** | **20,973** | **79.0** | **7,746** | **80.6** | **8,366** | **76.0** |
| **NON-MAJOR PRODUCTS** | | | | | | | | | | |
| Other male fertility IVD reagents [(1)] | 2,747 | 14.1 | 3,927 | 15.5 | 4,059 | 15.3 | 1,330 | 13.9 | 1,517 | 13.7 |
| Detection kit for IgG antibody to Schistosoma japonicum (日本血吸蟲IgG抗體檢測試劑盒) | 27 | 0.2 | 45 | 0.2 | 435 | 1.6 | 28 | 0.3 | 382 | 3.5 |
| Auxiliary reproductive supplies and equipment | 489 | 2.5 | 913 | 3.6 | 1,074 | 4.1 | 502 | 5.2 | 747 | 6.8 |
| **Non-major products subtotal** | **3,263** | **16.8** | **4,885** | **19.3** | **5,568** | **21.0** | **1,860** | **19.4** | **2,646** | **24.0** |
| **TOTAL** | **19,456** | **100.0** | **25,410** | **100.0** | **26,541** | **100.0** | **9,606** | **100.0** | **11,012** | **100.0** |

*Note:*

(1) Our other male fertility IVD reagents during the Track Record Period primarily consisted of 18 types of products such as seminal plasma fructose quantitative assay kit (精漿果糖定量檢測試劑盒), peroxidase staining (過氧化物酶染色液) and seminal plasma citric acid quantitative assay kit (精漿檸檬酸定量檢測試劑盒).

*Male Fertility IVD Reagent Sales*

Revenue from the sales of our male fertility IVD reagents increased from RMB17.0 million for FY2015 to RMB22.2 million for FY2016 which was mainly attributable to an increase in the sales volume of our male fertility IVD reagents, primarily because the PRC government implemented the universal two-child policy in January 2016 and some of our existing customers increased their purchases of our products. Revenue from the sales of our male fertility IVD reagents further increased slightly to RMB22.7 million for FY2017 primarily because the product mix of our male fertility IVD reagents which contributed to our total revenue for this period changed as the relevant hospitals and medical institutions adjusted the product mix of IVD reagents which they procured for relevant diagnostic tests. Revenue from the sales of our male fertility IVD reagents increased slightly from RMB8.4 million for the five months ended 31 May 2017 to RMB8.9 million for the five months ended 31 May 2018, which was mainly attributable to an increase in the sales volume of the major products of our male fertility IVD reagents, primarily due to the increase in purchase from our existing customers and purchase from new customers.

*Parasite Antibody Detection Reagent Sales*

Revenue from the sales of our parasite antibody detection reagents increased during the Track Record Period, mainly attributable to: (i) an increase in the sales of our detection kits for IgG antibody to liver fluke primarily because such product is one of the only two liver fluke IVD reagent products which the CFDA has approved for manufacture and sale in China and some of our existing customers further increased their purchases; and (ii) an increase in the sales volume of our detection kits for IgG antibody to Schistosoma japonicum, as some of our existing customers continued to increase their purchases of such product and several new distributors commenced to sell such product to end customers in the second half of 2017.

*EBV Antibody Detection Reagent Sales*

Revenue from the sales of our EBV antibody detection reagent remained relatively stable at RMB1.1 million, RMB1.0 million and RMB869,000 for FY2015, FY2016, FY2017, respectively.

*Auxiliary Reproductive Supplies and Equipment Sales*

Revenue from the sales of auxiliary reproductive supplies and equipment increased from RMB489,000 for FY2015 to RMB913,000 for FY2016, which was mainly attributable to: (i) revenue from the sales of the assembly-line type of full-automatic enzyme-linked immunologic workstation (流水線式全自動酶聯免疫工作站) which we commenced sale of such product to market in late 2016; and (ii) an increase in the sales of reagents and consumables which facilitate our customers to use our IVD reagents and/or are related to ART (such as anti-mullerian hormone detection kit (抗繆勒氏管激素定量檢測試劑盒), and sampling cups. Revenue from the sales of auxiliary reproductive supplies and equipment further increased slightly from RMB913,000 for FY2016 to RMB1.1 million for FY2017 as end customers purchased based on their needs for diagnostic testing. Revenue from the sales of auxiliary reproductive supplies and equipment increased from RMB502,000 for the five months ended 31 May 2017 to RMB747,000 for the five months ended 31 May 2018 , which was mainly attributable to an increase in the sales of reagents and consumables such as anti-mullerian hormone detection kit (抗繆勒氏管激素定量檢測試劑盒), the assembly-line type of full-automatic enzyme-linked immunologic workstation (流水線式全自動酶聯免疫工作站), pipettes, microscope slides and sampling cups.

### *Revenue by Sales Channel*

The following table sets forth a breakdown of our revenue by sales channel for the periods indicated:

| | Year ended 31 December | | | | | | Five months ended 31 May | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2016 | | 2017 | | 2017 | | 2018 | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* *(unaudited)* | *%* | *RMB'000* | *%* |
| **Direct sales** | | | | | | | | | | |
| Male fertility IVD reagents | 10,450 | 53.7 | 13,066 | 51.4 | 13,269 | 50.0 | 5,318 | 55.3 | 5,127 | 46.5 |
| Parasite antibody detection reagents | 98 | 0.5 | 243 | 1.0 | 365 | 1.4 | 144 | 1.5 | 131 | 1.2 |
| EBV antibody detection reagent | – | – | – | – | – | – | – | – | 6 | 0.1 |
| Auxiliary reproductive supplies and equipment | 464 | 2.4 | 588 | 2.3 | 704 | 2.6 | 275 | 2.9 | 386 | 3.5 |
| **Sub-total** | 11,012 | 56.6 | 13,897 | 54.7 | 14,338 | 54.0 | 5,737 | 59.7 | 5,650 | 51.3 |
| **Sales to distributors** | | | | | | | | | | |
| Male fertility IVD reagents | 6,548 | 33.6 | 9,164 | 36.1 | 9,421 | 35.5 | 3,066 | 31.9 | 3,742 | 34.0 |
| Parasite antibody detection reagents | 790 | 4.1 | 983 | 3.8 | 1,543 | 5.8 | 361 | 3.8 | 936 | 8.5 |
| EBV antibody detection reagent | 1,081 | 5.6 | 1,041 | 4.1 | 869 | 3.3 | 215 | 2.2 | 323 | 2.9 |
| Auxiliary reproductive supplies and equipment | 25 | 0.1 | 325 | 1.3 | 370 | 1.4 | 227 | 2.4 | 361 | 3.3 |
| **Sub-total** | 8,444 | 43.4 | 11,513 | 45.3 | 12,203 | 46.0 | 3,869 | 40.3 | 5,362 | 48.7 |
| **TOTAL** | 19,456 | 100.0 | 25,410 | 100.0 | 26,541 | 100.0 | 9,606 | 100.0 | 11,012 | 100.0 |

*Direct Sales*

Revenue from the direct sales of our products increased from FY2015 to FY2016, mainly attributable to an increase in the sales volume of our male fertility IVD reagents, primarily because some of our existing direct sales customers increased their purchases of our products as a result of the implementation of the universal two-child policy by the PRC government since January 2016 and our prior marketing activities with direct sales customers. The total number of our direct sales customers was 71, 69, 83 and 71 as at 31 December 2015, 31 December 2016, 31 December 2017 and 31 May 2018, respectively. Sales of IVD reagents to our customers are relatively low around the Chinese New Year each year, as compared to the monthly average sales of IVD reagents within the same year.

*Sales to our Distributors*

Revenue from the sales of our products to our distributors increased during the Track Record Period, in line with the increasing number of our distributors. The total number of our distributors was 111, 133, 149 and 124 as at 31 December 2015, 31 December 2016, 31 December 2017 and 31 May 2018 respectively. Revenue from the sales of our products to our distributors increased from RMB8.4 million for FY2015 to RMB11.5 million for FY2016, which was mainly attributable to: (i) an increase in revenue from

the sales of our male fertility IVD reagents, primarily because some of our existing distributors increased their purchases of our products after the implementation of the universal two-child policy by the PRC government in January 2016; and (ii) revenue from the sales of the assembly-line type of full-automatic enzyme-linked immunologic workstation (流水線式全自動酶聯免疫工作站) which we commenced sales of such product to market in late 2016. Revenue from the sales of our products to our distributors increased slightly from RMB11.5 million for FY2016 to RMB12.2 million for FY2017, which was mainly attributable to an increase in revenue from the sales of our parasite antibody detection reagents, primarily because some of our existing distributors increased their purchases of our detection kit for IgG antibody to liver fluke and several new distributors commenced to sell such product to end customers in 2017. Revenue from the sales of our products to our distributors increased from RMB3.9 million for the five months ended 31 May 2017 to RMB5.4 million for the five months ended 31 May 2018, mainly attributable to (i) an increase in revenue from the sales of our male fertility IVD reagents, primarily because some of our existing distributors increased their purchase; and (ii) an increase in revenue from the sales of our parasite antibody detection reagents, primarily because some of our existing distributors increased their purchase of our detective kit for IgG antibody to liver fluke and several new distributors commenced to sell our detection kit for IgG antibody to schistosoma japonicum.

### Cost of Sales, Gross Profit and Gross Profit Margin

Our total cost of sales primarily consists of the following categories: (i) costs of sales for our self-manufactured IVD reagents; and (ii) costs for purchase of auxiliary reproductive supplies and equipment from third party manufacturers. Costs of sales for our self-manufactured IVD reagents primarily consist of costs of raw materials, staff costs, rent, depreciation and other manufacturing overheads. The following table sets forth a breakdown of our overall cost of sales for the periods indicated:

| | Year ended 31 December | | | | | | Five months ended 31 May | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2016 | | 2017 | | 2017 | | 2018 | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* (*unaudited*) | *%* | *RMB'000* | *%* |
| **Costs of sales for our self-manufactured IVD reagents** | | | | | | | | | | |
| Costs of raw materials | 2,259 | 44.4 | 3,383 | 43.5 | 3,534 | 44.1 | 1,222 | 42.2 | 1,234 | 43.4 |
| Staff costs | 1,569 | 30.8 | 2,504 | 32.1 | 2,801 | 35.0 | 1,078 | 37.2 | 881 | 31.0 |
| Depreciation | 251 | 4.9 | 351 | 4.5 | 404 | 5.0 | 165 | 5.7 | 165 | 5.8 |
| Rent | 540 | 10.6 | 452 | 5.8 | 195 | 2.4 | 81 | 2.8 | 81 | 2.8 |
| Taxes and government levies | 68 | 1.4 | 88 | 1.1 | 93 | 1.2 | 34 | 1.2 | 36 | 1.3 |
| Other manufacturing overheads | 162 | 3.2 | 467 | 6.0 | 503 | 6.3 | 113 | 3.9 | 87 | 3.1 |
| **Subtotal** | 4,849 | 95.3 | 7,245 | 93.0 | 7,530 | 94.0 | 2,693 | 93.0 | 2,484 | 87.4 |
| **Costs of sales for auxiliary reproductive supplies and equipment** | | | | | | | | | | |
| Costs of purchase | 232 | 4.6 | 531 | 6.8 | 461 | 5.8 | 194 | 6.7 | 344 | 12.1 |
| Taxes and government levies | 7 | 0.1 | 12 | 0.2 | 16 | 0.2 | 8 | 0.3 | 13 | 0.5 |
| **Subtotal** | 239 | 4.7 | 543 | 7.0 | 477 | 6.0 | 202 | 7.0 | 357 | 12.6 |
| **Total** | 5,088 | 100 | 7,788 | 100 | 8,007 | 100 | 2,895 | 100.0 | 2,841 | 100.0 |

Costs of raw material consist primarily of costs of raw materials, consumables used in our manufacture activities and packaging materials. Staff costs consist primarily of salaries and contributions to social welfare for personnel involved in our manufacture activities. Depreciation consists primarily of depreciation charges for property, plant and equipment used in the manufacture of IVD reagents. Rent consists primarily of rent payments incurred for production facilities and premises. Other manufacturing overheads consist primarily of maintenance costs, warehouse expenses and utilities. Moreover, costs of purchase for auxiliary reproductive supplies and equipment consist primarily of costs incurred for purchases of such products from third party manufacturers for resale. Taxes and government levies consist primarily of taxes and government levies in respect of sale of our IVD reagents, as well as auxiliary reproductive supplies and equipment. Our costs of sales for our self-manufactured products accounted for 95.3%, 93.0%, 94.0% and 87.4% of our total cost of sales for FY2015, FY2016, FY2017 and the five months ended 31 May 2018, respectively.

Our overall gross profit represents our total revenue less our overall cost of sales. Our gross profit margin represents our gross profit as a percentage of our revenue. For FY2015, FY2016, FY2017 and the five months ended 31 May 2018, our overall gross profit was RMB14.4 million, RMB17.6 million, RMB18.5 million and RMB8.2 million respectively, and our overall gross profit margin was 73.8%, 69.4%, 69.8% and 74.2%, respectively. Our gross profit margin for the manufacture of IVD reagents, which is calculated based on our revenue generated from the sales of our self-manufactured IVD reagents and the relevant costs of sales for FY2015, FY2016, FY2017 and the five months ended 31 May 2018, amounted to 74.4%, 70.4%, 70.4% and 75.8%, respectively. Our gross profit margin for the manufacture of IVD reagents decreased from FY2015 to FY2016, primarily attributable to an increase in staff costs relating to our manufacturing activities as a result of the following reasons: (i) the rising average salary levels of our production employees, which are determined by the supply and demand of local labour market in Shenzhen from 2015 to 2016, and (ii) an increase in the average headcount of our production staff (including production, quality management and engineering departments) from 27 for FY2015 to 36 for FY2016. Our gross profit margin for the manufacture of IVD reagents remained stable for FY2016 and FY2017, mainly as a result of the combined effects of (i) an increase in staff cost relating to our manufacturing activities; and (ii) a decrease in rent for our production facilities as a result of our relocation in 2016. Our gross profit margin for the manufacture of IVD reagents increased from 70.4% for the five months ended 31 May 2017 to 75.8% for the five months ended 31 May 2018, mainly attributable to (i) the decrease in staff costs relating to our manufacturing activities primarily due to a decrease in the average headcount of our production staff (including production, quality management and engineering departments) from 40 for the five months ended 31 May 2017 to 24 for the five months ended 31 May 2018; and (ii) the higher efficiency in utilising raw materials in our production process as a result of the improved skills and techniques of our production staff. The decrease in the average headcount of our production staff from the five months ended 31 May 2017 to the five months ended 31 May 2018 was mainly due to the higher operational efficiency of our production department while some of the production staff members were transferred to other departments of our Group.

We plan to recruit new research and development personnel in order to further strengthen our product research and development capability, as well as to implement our business strategies, including further expanding our product portfolio and improving our existing products offerings. In the meantime, we also plan to hire additional technicians and production workers to cope with the expected expansion of our product portfolio.

**Other Income**

Our other income consisted primarily of interest income on loans to Shenzhen Junxuan, government grants, bank interest income and sundry income. The following table sets forth a breakdown of our other income for the periods indicated:

| | Year ended 31 December | | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (*unaudited*) | *RMB'000* |
| Interest income on loans to Shenzhen Junxuan | 1,278 | 123 | 54 | 34 | – |
| Government grants | 861 | 151 | 558 | 19 | 19 |
| Bank interest income | 12 | 36 | 89 | 18 | 19 |
| Sundry income | – | 3 | 2 | 2 | 34 |
| **Total** | 2,151 | 313 | 703 | 73 | 72 |

The interest income on loans to Shenzhen Junxuan was derived from the loans to Shenzhen Junxuan which was unsecured, interest bearing at 9.5% per annum during the Track Record Period, and repayable in next 36 months from the date of drawdown. The interest rates of 9.5% per annum, were with reference to the effective interest rates of unsecured bank borrowing obtained by our Group. The loan to Shenzhen Junxuan was funded by unsecured bank borrowing of the same principal amount and interest rate obtained by Shenzhen Huakang. Shenzhen Junxuan fully settled the relevant loan in August 2017, while our Group also settled our unsecured bank borrowing in the same month. For further details, please refer to the paragraph headed "– Discussion of Selected Items from the Consolidated Statements of Profit or Loss and other Comprehensive Income – Finance Cost" in this section. During the Track Record Period, the interest income on loans to Shenzhen Junxuan decreased, primarily attributable to repayments of such loans by Shenzhen Junxuan during such period.

During the Track Record Period, we received government grants from the relevant authorities in the PRC. Government grants consisted primarily of compensation for our research and development costs, grants for improvement of our research facilities in relation to specific projects assigned to us by the relevant authorities, such as the Finance Commission of Shenzhen Municipality* (深圳市財政委員會) and the Finance Bureau of Bao'an District of Shenzhen Municipality* (深圳市寶安區財政局), and subsidies in recognition of our achievements. It is in the sole discretion of the relevant authorities to decide whether and when to provide government grants to our Group and the amount of such grants. Going forward, we expect to continue to receive government grants from the relevant authorities in the PRC. Please refer to Note 4 "Significant Accounting Policies – Government Grants" to the Accountants' Report included in Appendix I to this document for further details on our accounting policies for government grants.

Government grants decreased for FY2016 as compared to that for FY2015, mainly because we relocated our production facilities from Bao'an District to Dapeng New District, Shenzhen, in August 2016 and only part of the tax records for FY2016 after relocation can be used for the government grant

applications provided by the local authority of new district. Government grants increased for FY2017 as compared to that for FY2016, as we received an one-off government grant amounted to RMB500,000 from the Economic Service Bureau of Shenzhen Dapeng New District* (深圳市大鵬新區經濟服務局) during FY2017 as the recognition of our research and development, as well as manufacture of parasite antibody detection products. Government grants remained relatively stable at RMB19,000 for the five months ended 31 May 2018 as compared to that of RMB19,000 for the five months ended 31 May 2017.

**Other Gains/(Losses)**

Our other gains/(losses) consisted of loss on disposal and written off of property, plant and equipment, allowance of doubtful debts on trade and other receivables, foreign exchange gains and other miscellaneous losses. The following table sets forth a breakdown of our other losses for the periods indicated:

| | Year ended 31 December | | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | *(unaudited)* | |
| Loss on disposal and written off of property, plant and equipment | – | (1,294) | – | – | – |
| (Allowance for)/reversal of allowance for doubtful debts on trade and other receivables . . . | (17) | (159) | (126) | (126) | 129 |
| Foreign exchange gains/(losses) . | – | – | 283 | – | (66) |
| Others . . . . . | (72) | – | – | (7) | – |
| | (89) | (1,453) | 157 | (133) | 63 |

Our allowances for doubtful debts on trade and other receivables for FY2015, FY2016, FY2017 and the five months ended 31 May 2018 primarily consisted of trade and other receivables which were past due more than one year. Our loss on disposal and written off of property, plant and equipment incurred for FY2016 was mainly due to relocation of our production facilities in 2016.

**Selling and Distribution Expenses**

Our selling and distribution expenses consisted primarily of staff cost, marketing expenses, travelling expenses, freight charges and others. The following table sets forth a breakdown of our selling and distribution expenses for the periods indicated:

| | Year ended 31 December | | | | | | Five months ended 31 May | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2016 | | 2017 | | 2017 | | 2018 | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* (*unaudited*) | *%* | *RMB'000* | *%* |
| Staff cost | 1,822 | 66.6 | 1,547 | 53.2 | 1,277 | 44.7 | 421 | 37.2 | 603 | 46.5 |
| Marketing expenses | 353 | 12.9 | 656 | 22.5 | 660 | 23.1 | 392 | 34.7 | 251 | 19.3 |
| Travelling expenses | 228 | 8.3 | 416 | 14.3 | 319 | 11.1 | 108 | 9.5 | 129 | 10.0 |
| Depreciation | 1 | 0.1 | 3 | 0.1 | 270 | 9.4 | 34 | 3.0 | 169 | 13.0 |
| Freight charges | 88 | 3.2 | 111 | 3.8 | 136 | 4.8 | 65 | 5.8 | 51 | 3.9 |
| Others | 242 | 8.9 | 177 | 6.1 | 198 | 6.9 | 111 | 9.8 | 94 | 7.3 |
| **Total** | **2,734** | **100.0** | **2,910** | **100.0** | **2,860** | **100.0** | **1,131** | **100.0** | **1,297** | **100.0** |

Staff cost primarily consist of the salaries and contributions to social welfare for our in-house sales and marketing staff. Marketing expenses mainly consist of expenses for marketing and advertising our products. Travelling expense consist primarily of the travel costs of our in-house sales and marketing staff that is directly related to the marketing of our products. Depreciation is primarily related to the low temperature surgical system and flow cytometric analyzer purchased in FY2017 which is used for marketing purpose. Freight charges mainly consist of costs incurred in connection with transportation of our goods from our production facilities to destinations designated by our customers. Other selling and distribution expenses primarily consist of office expenses, communication expenses, conference and trade show expenses.

Our selling and distribution expenses increased from FY2015 to FY2016, primarily attributable to an increase in marketing expenses and an increase in travelling expenses as we carried out more sales and marketing activities in the PRC to increase our product sales, the effect of which were partially offset by a decrease in staff cost primarily because some sales and marketing staff changed employment as a result of the supply and demand conditions of local labour market in Shenzhen. Our selling and distribution expenses remained stable around RMB2.9 million for FY2016 and FY2017, mainly as a result of the combined effects of (i) a decrease in staff cost primarily because some sales and marketing staff changed employment as a result of the supply and demand conditions of local labour market in Shenzhen; and (ii) an increase in depreciation. Our selling and distribution expenses increased from the five months ended 31 May 2017 to the five months ended 31 May 2018, primarily due to an increase in staff cost as the average headcount for marketing activities increased from 15 to 24 and an increase in depreciation, the effects of which were partially offset by a decrease in marketing expenses. For FY2015, FY2016, FY2017 and the five months ended 31 May 2018, our selling and distribution expenses were 14.0%, 11.5%, 10.8% and 11.8% of our total revenue for the same periods, respectively.

**Administrative Expenses**

Our administrative expenses consisted primarily of staff costs, office expenses, property expenses, travel and transportation expenses, depreciation expenses, auditor's remuneration and consultancy fees and others. The following table sets forth a breakdown of our administrative expenses for the periods indicated:

| | Year ended 31 December | | | | | | Five months ended 31 May | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2016 | | 2017 | | 2017 | | 2018 | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* (*unaudited*) | *%* | *RMB'000* | *%* |
| Staff costs | 882 | 56.4 | 1,067 | 46.6 | 1,485 | 45.8 | 411 | 46.6 | 992 | 55.9 |
| Office expenses | 200 | 12.8 | 338 | 14.8 | 719 | 22.2 | 182 | 20.7 | 155 | 8.7 |
| Travel and transportation expenses | 128 | 8.2 | 165 | 7.2 | 317 | 9.8 | 101 | 11.5 | 96 | 5.4 |
| Depreciation | 119 | 7.6 | 162 | 7.1 | 239 | 7.4 | 80 | 9.1 | 137 | 7.7 |
| Property expenses | 206 | 13.2 | 258 | 11.3 | 206 | 6.3 | 79 | 9.0 | 77 | 4.3 |
| Professional fees | 10 | 0.6 | 274 | 12.0 | 34 | 1.0 | – | – | 292 | 16.5 |
| Others | 20 | 1.2 | 26 | 1.2 | 244 | 7.5 | 27 | 3.1 | 27 | 1.5 |
| **Total** | **1,565** | **100.0** | **2,290** | **100.0** | **3,244** | **100.0** | **880** | **100.0** | **1,776** | **100.0** |

Staff costs consists primarily of salaries and contributions to social welfare for management and administrative staff. Office expenses consist primarily of business administrative expenses, and communication and reception expenses incurred by our administrative personnel. Travel and transportation expenses consist primarily of our travel and transportation expenses for our management and administrative staff. Depreciation is related to offices and equipment used by our management and administrative staff. Property expenses consist primarily of rents and utilities related to properties used by our management and administrative staff. Professional fees consist primarily of fees paid to auditors as well as a financial consultancy company for professional services rendered. Other administrative expenses, which primarily consist of communication expenses, taxation, training expenses and other administrative expenses.

Our administrative expenses increased during the Track Record Period primarily attributable to an increase in staff costs mainly because of the increase in average headcounts and average salary during the Track Record Period. For FY2015, FY2016, FY2017 and the five months ended 31 May 2018, our administrative expenses were 8.0%, 9.0%, 12.2% and 16.1% of our total revenue for the same periods, respectively.

**Research and Development Expenses**

Our research and development expenses consisted primarily of staff costs for personnel involved in research and development activities, fees incurred in patent applications and expenses in relation to engagement of technological consultants, and amortisation of intangible assets involved in research and development activities. Our research and development expenses decreased from RMB1.6 million for FY2015 to RMB1.2 million for FY2016, primarily because: (i) we completed 12 research projects in FY2015, and we had six and three active research projects in FY2016 and FY2017 respectively, and (ii) the average

headcount of our research and development department decreased from 19 for FY2015 to seven for FY2016, and further to six for FY2017, as some employees changed employment after our relocation of production facilities to the new district in the second half of 2016. Our research and development expenses increased to RMB1.4 million for FY2017, as compared to our research and development expenses of RMB1.2 million for FY2016, primarily due to expenses amounted to RMB312,000 related to research and development projects having moved into clinical trial stage during FY2017. Our research and development expenses increased from RMB476,000 for the five months ended 31 May 2017 to RMB557,000 for the five months ended 31 May 2018, primarily due to (i) an increase in staff costs for personnel involved in research and development activities as the average headcount of our research and development department increased from six to eight, and (ii) an increase in depreciation expenses incurred for equipments in relation to our research and development activities. Please refer to Note 4 "Significant Accounting Policies – Intangible assets" to the Accountants' Report included in Appendix I to this document for further details on our accounting policies for research and development expenditure.

**Finance Costs**

Our finance costs primarily represented interests on our bank borrowings and bank charges. The following table sets forth a breakdown of the major components of our finance costs for the periods indicated:

| | Year ended 31 December | | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | *(unaudited)* | |
| Interests on bank borrowings . . . | 1,278 | 123 | 54 | 34 | – |
| Others . . . . . | 6 | 5 | – | – | – |
| | 1,284 | 128 | 54 | 34 | – |

Interests on bank borrowings consist of interests on loans provided by banks to Shenzhen Huakang. Such loans were unsecured and interest bearing with interest rates vary from the PRC benchmark lending rate which is reset annually. The effective interest rates (which were the contracted interest rates) of our bank borrowings were 9.5% per annum during the Track Record Period. Shenzhen Huakang entered into these bank borrowings in 2014 and 2015. Pursuant to agreements entered into between Shenzhen Junxuan, which owned as to 44% equity interest of Shenzhen Huakang at the relevant times, and Shenzhen Huakang in 2014 and 2015, all amounts received by Shenzhen Huakang under such bank borrowings were further advanced to Shenzhen Junxuan, and Shenzhen Junxuan has undertaken to repay all the principal amounts and interest of such bank borrowings to Shenzhen Huakang. The amounts of such bank borrowings were fully settled in August 2017. During the Track Record Period, our finance costs decreased primarily attributable to a decrease in interest on bank borrowings as a result of the repayment of loans by Shenzhen Junxuan to Shenzhen Huakang.

**Income Tax Expense**

Income tax expenses consist primarily of the current income tax at the PRC statutory rates applicable to our assessable profit before taxation, as determined under relevant laws and regulations for the reporting periods.

***Cayman Islands Tax***

The Cayman Islands currently levy no taxes on corporations based on profits, income, gains or appreciations. Therefore, we are not subject to any Cayman Islands income tax.

***PRC Corporate Income Tax***

Under the PRC EIT Law, which became effective on 1 January 2008, all types of businesses are subject to a uniform tax rate of 25.0%. Our PRC operating subsidiary, Shenzhen Huakang, was entitled to certain preferential income tax rates as granted by relevant tax authorities during the Track Record Period. Please refer to the paragraph headed "– Factors Affecting Our Results of Operations – Preferential Tax Treatment for Our PRC Operations" in this section and Note 10 "Income Tax Expense" to the Accountants' report included in Appendix I to this document for further details on applicable tax rate and the preferential tax treatments that we received and our income tax expenses during the Track Record Period.

The income taxes which our Group paid for FY2015, FY2016 and FY2017 mainly pertained to the year of assessment for 2015 ("**YA2015**"), the year of assessment for 2016 ("**YA2016**") and the year of assessment for 2017 ("**YA2017**"), respectively, based on the annual tax settlement (税務匯算清繳) which was determined by the taxable income of our Group. In connection with the **[REDACTED]**, the financial statements of Shenzhen Huakang for FY2015, FY2016 and FY2017 were audited in accordance with HKFRS. Certain prior years' cut-off and accounting errors in relation to Shenzhen Huakang as explained below were corrected, which led to an increase in our Group's taxable income for YA2015 and a decrease in our Group's taxable income for YA2016. The PRC EIT under-payment for YA2015 was duly settled in October 2017, and Shenzhen Huakang received a tax refund for the PRC EIT over-payment for YA2016 on 18 December 2017. For further details, please refer to the consolidated statements of financial position as well as the consolidated statements of cash flows in the Accountants' Report set out in Appendix I to this document.

With respect to the aforesaid accounting errors, our Directors consider that it was mainly due to the then inexperienced accounting staff for the accurate recognition of revenue and cost of sales, capitalisation of research and development cost, and recognition of government grant based on relevant accounting standards during the preparation of tax filings. Details of the relevant accounting adjustments are elaborated as follows:

| **Item** | | **FY2015** | **FY2016** |
|---|---|---|---|
| | | *(RMB'000)* | *(RMB'000)* |
| 1. | Sales cut off error | (12.7) | – |
| 2. | Recognition of deemed sales | 6.6 | – |
| 3. | Reversal/(Provision) for bad debts | 670.9 | (785.0) |
| 4. | (Expenses)/Capitalisation of research and development cost | 1,006.8 | (608.8) |
| 5. | Adjustment of amortisation cost | (221.2) | – |
| 6. | Adjustment on cost of sales recognition | 2,220.2 | (189.1) |
| 7. | Reclassification of government grant | 80.8 | 35.0 |
| 8. | Under-provision of social insurance | (70.8) | (307.5) |
| 9. | Other | (30.3) | 0.6 |

*1. Sales cut-off error*

Shenzhen Huakang had mistakenly recognised sales of goods with untransferred title, and failed to recognise sales of goods with unissued invoice which had been delivered to customers.

As such, the net amount of the cut-off difference of RMB12,695 was revised as deductible in the revised EIT annual settlement for YA2015 submitted to the PRC tax authority.

*2. Recognition of deemed sales*

In FY2015, some inventories were consumed internally by the sales department of Shenzhen Huakang. This should have been deemed as sales by Shenzhen Huakang with reference to the selling prices of the inventories for that period. The amount of deemed sales was revised as taxable income in the revised EIT annual settlement accordingly.

*3. Reversal/(Provision) of bad debts*

In FY2015, the reversal for bad debts included the special provision on account receivables of RMB688,722 which was reported to the tax authority and claimed for tax reduction in prior years. Such period account receivables was subsequently recovered in FY2015 and was partially netted off by the general provision on account receivables of RMB17,803.

In FY2016, the provision for bad debts included (i) a specific provision on account receivables of RMB626,210, and (ii) a general provision of RMB158,782.

*4. (Expenses)/Capitalisation of research and development cost*

The relevant accounting standards allow capitalisation and amortisation of qualified expenses. During FY2015 and FY2016, certain research and development costs were misallocated between the balance sheet and the profit or loss accounts. Shenzhen Huakang then revised the allocation of capitalised research and development costs.

The reclassification resulted in a decrease in expenses of RMB1.0 million in FY2015, and an increase in expenses of RMB608,778 in FY2016. These reclassifications have been reflected in the revised YA2015 and YA2016 EIT annual settlements and treated as taxable/deductible accordingly.

*5. Adjustment on amortisation costs*

Pursuant to the reclassification stated in paragraph 4 above, the amortisation costs of RMB221,000 for FY2015 were adjusted accordingly.

*6. Adjustment on costs of sales recognition*

Pursuant to Articles 56 and 73 of the PRC Implementation Rules of Enterprise Income Tax Law ("**Implementation Rules**"), cost of inventory refers to expenditures actually incurred when an enterprise acquired the assets. Enterprises may use the first-in-first-out method, weighted average method, or the specific identification method, to determine the actual cost of inventory.

Shenzhen Huakang revised and adjusted the cost allocation error to ascertain the cost of sales for FY2015 and FY2016, which resulted in a decrease by RMB2.2 million and an increase by RMB189,000, in the cost of sales, respectively, and therefore the taxable income was revised in the EIT annual settlement for YA2015 and YA2016 accordingly.

*7. Reclassification of government grant*

In accordance with our Group's accounting policies, government grants whose primary condition is that our Group should purchase, construct or otherwise acquire non-current assets, are recognised as deferred income in the consolidated statement of financial position, and transferred to the profit or loss accounts on a systematic and rational basis over the useful lives of the related assets.

Article 21 of the Implementation Rules requires revenue received without return consideration, other than those granted by the government authorities of the State Council, to be recognised as income in the profit or loss accounts on the date of receiving the donated assets. Since the amounts recognised in the profit or loss accounts were actually received during FY2015 and FY2016 respectively, the taxable income was revised in the revised EIT annual settlements for YA2015 and YA2016 accordingly.

*8. Under-provision of social insurance*

The amount of RMB519,000 represented provision of social insurance underpaid during the Track Record Period and were revised as deductible expenses in the revised EIT annual settlements.

To rectify the EIT positions of Shenzhen Huakang due to the aforesaid accounting adjustments, Shenzhen Huakang engaged a certified PRC tax agent to prepare revised EIT annual settlements, which were submitted to the PRC tax authority in charge to rectify the understated/overstated profits in the YA2015 and YA2016 tax filings. The tax officer of the relevant PRC tax authority accepted the revised EIT annual settlements for YA2015 and YA2016 on 12 October 2017. Shenzhen Huakang settled the EIT underpaid for YA2015 in the amount of RMB 542,235 on the same day. The refund for the tax overpaid for YA2016 has also been received by Shenzhen Huakang in December 2017.

***Effective Tax Rate***

As a result of the foregoing, in line with the PRC statutory rates applicable to our assessable profit before taxation, our effective tax rate, representing income tax expense divided by profit before taxation, was 13.8% and 15.3% for FY2015 and FY2016, respectively. Calculation of our effective tax rate for FY2017 is not applicable as we recorded loss before taxation for such period. After excluding the **[REDACTED]**, our effective tax rate would be 14.4% for FY2017. During the Track Record Period, there were no material disputes or unresolved tax issues with the relevant tax authorities.

## REVIEW OF HISTORICAL RESULTS OF OPERATIONS

### Five Months Ended 31 May 2018 Compared to Five Months Ended 31 May 2017

***Revenue***

Our total revenue increased by RMB1.4 million, or by 14.6%, from RMB9.6 million for the five months ended 31 May 2017 to RMB11.0 million for the five months ended 31 May 2018, primarily attributable to: (i) an increase in revenue from the sales of our parasite antibody detection reagents; and (ii) an increase in revenue from the sales of male fertility IVD reagents.

*Revenue by Product Category*

- *Male fertility IVD reagent sales.* Revenue from the sales of our male fertility IVD reagents slightly increased by RMB0.5 million, or by 5.8%, from RMB8.4 million for the five months ended 31 May 2017 to RMB8.9 million for the five months ended 31 May 2018. This was primarily attributable to an increase in the sales volumes of the major products of our male fertility IVD reagents.

- *Parasite antibody detection reagent sales*. Revenue from the sales of our parasite antibody detection reagents increased by RMB562,000, or by 111.3%, from RMB505,000 for the five months ended 31 May 2017 to RMB1.1 million for the five months ended 31 May 2018. Such increase was attributable to (i) an increase in the sales of our detection kit for IgG antibody to Schistosoma japonicum of RMB354,000, or by 1,264.3%, from RMB28,000 for the five months ended 31 May 2017 to RMB382,000 for the five months ended 31 May 2018, primarily because several new distributors commenced to sell our detection kit for IgG antibody to Schistosoma japonicum since 2018; and (ii) an increase in the sales of our detection kits for IgG antibody to liver fluke of RMB208,000, or by 43.6%, from RMB477,000 for the five months ended 31 May 2017 to RMB685,000 for the five

months ended 31 May 2018, primarily because our existing customers realised the characteristics of such product, which has been one of the only two liver fluke IVD reagents approved by the CFDA up to the Latest Practicable Date, and further increased their purchases in 2018.

- *EBV antibody detection reagent sales.* Revenue from the sales of our EBV antibody detection reagent increased from RMB215,000 for the five months ended 31 May 2017 to RMB329,000 for the five months ended 31 May 2018.

- *Auxiliary reproductive supplies and equipment sales.* Revenue from the sales of third party auxiliary reproductive supplies and equipment increased by RMB245,000, or by 49.1%, from RMB502,000 for the five months ended 31 May 2017 to RMB747,000 for the five months ended 31 May 2018. Such increase was primarily attributable to an increase in sales of reagents and consumables such as anti-mullerian hormone detection kit (抗繆勒氏管激素定量檢測試劑盒) and the assembly-line type of full-automatic enzyme-linked immunologic workstation (流水線式全自動酶聯免疫工作站), pipettes, microscope slides and sampling cups.

*Revenue by Sales Channel*

- *Direct sales.* Revenue from the direct sales of our products remained stable at RMB5.7 million for the five months ended 31 May 2018, as compared to that of RMB5.7 million for the five months ended 31 May 2017.

- *Sales to our distributors.* Revenue from the sales of our products to our distributors increased by RMB1.5 million, or by 38.6%, from RMB3.9 million for the five months ended 31 May 2017 to RMB5.4 million for the five months ended 31 May 2018, mainly attributable to (i) an increase in revenue from the sales of our male fertility IVD reagents, primarily because some of our existing distributors increase the purchase of our products; and (ii) and increase in revenue from the sales of our parasite antibody detection reagents, primarily because some of our existing distributors increase their purchase of our detective kit for IgG antibody to liver fluke and several new distributors commenced to sell our detection kit for IgG antibody to schistosoma japonicum.

***Cost of Sales, Gross Profit and Gross Profit Margin***

Our total cost of sales decreased slightly from RMB2.9 million for the five months ended 31 May 2017 to that of RMB2.8 million for the five months ended 31 May 2018, primarily attributable to the decrease in staff costs relating to our manufacturing activities mainly due to a decrease in the average headcount of our production staff (including production, quality management and engineering departments) from 40 for the five months ended 31 May 2017 to 24 for the five months ended 31 May 2018 and higher production efficiency of our production staff due to their improved production skills and techniques.

As a result of the foregoing, our total gross profit increased slightly from RMB6.7 million for the five months ended 31 May 2017 to RMB8.2 million for the five months ended 31 May 2018. Our overall gross profit margin slightly increased from 69.9% for the five months ended 31 May 2017 to 74.2% for the five months ended 31 May 2018.

***Other Income***

Our other income remained relatively stable at RMB73,000 for the five months ended 31 May 2017 and RMB72,000 for the five months ended 31 May 2018.

***Other Gains and Losses***

We recorded other gains of RMB63,000 for the five months ended 31 May 2018, whereas we recorded other losses of RMB133,000 for the five months ended 31 May 2017. Such change was mainly because of a decrease in net allowance for doubtful debts on trade and other receivables as a result of reversal of the allowance made.

***Selling and Distribution Expenses***

Our selling and distribution expenses increased by RMB166,000, or by 14.7%, from RMB 1.1 million for the five months ended 31 May 2017 to RMB1.3 million for the five months ended 31 May 2018, mainly as a result of the combined effects of (i) an increase in staff cost primarily because the average headcount for our marketing activities increased from 15 to 24; (ii) an increase in depreciation; and (iii) a decrease in marketing expenses.

***Administrative Expenses***

Our administrative expenses increased by RMB896,000, or by 101.8%, from RMB880,000 for the five months ended 31 May 2017 to RMB1.8 million for the five months ended 31 May 2018, primarily due to: (i) an increase in staff costs mainly because the average headcount for our administration department increased from 13 for the five months ended 31 May 2017 to 16 for the five months ended 31 May 2018 because we centralized our senior management to enhance our business functions and coordination among various departments within our Group; and (ii) an increase in professional fees of RMB292,000 in relation to the provision made for audit services for the five months ended 31 May 2018.

***Research and Development Expenses***

Our research and development expenses increased from RMB476,000 for the five months ended 31 May 2017 to RMB557,000 for the five months ended 31 May 2018, primarily due to (i) an increase in staff costs for personnel involved in research and development activities as the average headcount of our research and development department increased from six to eight, and (ii) an increase in depreciation expenses incurred for equipments in relation to our research and development activities.

***Finance Costs***

Our finance costs decreased by RMB34,000, or by 100%, from RMB34,000 for the five months ended 31 May 2017 to nil for the five months ended 31 May 2018, primarily due to a decrease in interest on relevant bank borrowings after our Group made repayments. Please refer to the paragraph headed "– Indebtedness" in this section for further details.

**[REDACTED]**

Our Group did not incur any **[REDACTED]** for the five months ended 31 May 2017 while we incurred the **[REDACTED]** of RMB**[REDACTED]** for the five months ended 31 May 2018.

***Income Tax Expense***

Our income tax expense increased by RMB133,000, or by 22.4%, from RMB595,000 for the five months ended 31 May 2017 to RMB728,000 for the five months ended 31 May 2018, primarily due to an increase in our taxable income.

***Profit for the Period***

As a result of the foregoing, we recorded profit of RMB1.5 million for the five months ended 31 May 2018 representing a decrease of RMB2.0 million as compared to our profit of RMB3.5 million for the five months ended 31 May 2017, which was mainly attributable to the incurrence of **[REDACTED]** of RMB**[REDACTED]** for the five months ended 31 May 2018.

**FY2017 Compared to FY2016**

***Revenue***

Our total revenue increased slightly by RMB1.1 million, or by 4.5%, from RMB25.4 million for FY2016 to RMB26.5 million for FY2017, primarily attributable to: (i) an increase in revenue from the sales of our parasite antibody detection reagents; and (ii) an increase in revenue from the sales of male fertility IVD reagents.

*Revenue by Product Category*

- *Male fertility IVD reagent sales.* Revenue from the sales of our male fertility IVD reagents remained relatively stable at RMB22.2 million for FY2016 and RMB22.7 million for FY2017. The product mix of our male fertility IVD reagents which contributed to our total revenue for this period changed as the relevant hospitals and medical institutions adjusted the product mix of IVD reagents which they procured for relevant diagnostic tests. The sales of our sperm function test products contributed primarily to such revenue for FY2017. Revenue from the sales of our sperm function test products increased by RMB1.4 million, or by 14.7%, from RMB9.6 million for FY2016 to RMB11.0 million for FY2017, primarily because the prices of such IVD reagents procured by the relevant customers for FY2017 were relatively higher as compared to those of IVD reagents procured by our customers for FY2016.

- *Parasite antibody detection reagent sales*. Revenue from the sales of our parasite antibody detection reagents increased by RMB682,000, or by 55.6%, from RMB1.2 million for FY2016 to RMB1.9 million for FY2017. Such increase was attributable to (i) an increase in the sales of our detection kit for IgG antibody to Schistosoma japonicum of RMB390,000, or by 866.7%, from RMB45,000 for FY2016 to RMB435,000 for FY2017, primarily because several new distributors commenced to sell such product in the second half of 2017; and (ii) an increase in the sales of our detection kits for IgG

antibody to liver fluke of RMB291,000, or by 24.6%, from RMB1.2 million for FY2016 to RMB1.5 million for FY2017, primarily because our existing customers realised the characteristics of such product, which has been one of the only two liver fluke IVD reagents approved by the CFDA up to the Latest Practicable Date, and further increased their purchases in 2017.

- *EBV antibody detection reagent sales.* Revenue from the sales of our EBV antibody detection reagent decreased slightly from RMB1.0 million for FY2016 to RMB869,000 for FY2017.

- *Auxiliary reproductive supplies and equipment sales.* Revenue from the sales of third party auxiliary reproductive supplies and equipment increased by RMB161,000, or by 17.6%, from RMB913,000 for FY2016 to RMB1.1 million for FY2017. Such increase was primarily attributable to: (i) an increase in the sales of sampling cups, which our customers have used as consumables for diagnostic testing; and (ii) an increase in the sales of anti-mullerian hormone detection kit (抗繆勒氏管激素定量檢測試劑盒) in relation to ART as our customers recognized the characteristics of such product and further increase their purchases, the effects of which were partially offset by a decrease in the sales of the assembly-line type of full-automatic enzyme-linked immunologic workstation (流水線式全自動酶聯免疫工作站) which our customers purchased based on their needs for diagnostic tests.

*Revenue by Sales Channel*

- *Direct sales.* Revenue from the direct sales of our products increased by RMB441,000, or by 3.2%, from RMB13.9 million for FY2016 to RMB14.3 million for FY2017, mainly attributable to an increase in revenue from the sales of our male fertility IVD reagents, primarily because the total number of our direct sales customers increased from 69 as at 31 December 2016 to 83 as at 31 December 2017.

- *Sales to our distributors.* Revenue from the sales of our products to our distributors increased by RMB690,000, or by 6.0%, from RMB11.5 million for FY2016 to RMB12.2 million for FY2017, mainly because the total number of our distributors increased from 133 as at 31 December 2016 to 149 as at 31 December 2017.

***Cost of Sales, Gross Profit and Gross Profit Margin***

Our total cost of sales increased by RMB219,000, or by 2.8%, from RMB7.8 million for FY2016 to RMB8.0 million for FY2017, primarily attributable to: (i) an increase in costs of raw materials mainly because we increased our purchases of raw materials for manufacture of IVD reagents for FY2017; and (ii) an increase in staff costs mainly because the average salary levels of our production employees increased for FY2017, as compared to those for FY2016, as well as the average headcount of our production staff (including production, quality management and engineering departments) from 36 for FY2016 to 38 for FY2017, the effects of which were partially offset by a decrease in rent for our production facilities due to our relocation in FY2016.

As a result of the foregoing, our total gross profit increased slightly from RMB17.6 million for FY2016 to RMB18.5 million for FY2017. Our overall gross profit margin slightly increased from 69.4% for FY2016 to 69.8% for FY2017.

***Other Income***

Our other income increased from RMB313,000 for FY2016 to RMB703,000 for FY2017, primarily attributable to an increase in government grants recognised in the profit or loss account, as we received an one-off government grant amounted to RMB500,000 from the Economic Service Bureau of Shenzhen Dapeng New District* (深圳市大鵬新區經濟服務局) as the recognition of our research and development, as well as manufacture of parasite antibody detection reagents during FY2017.

***Other Gains and Losses***

We recorded other gains of RMB157,000 for FY2017, whereas we recorded other losses of RMB1.5 million for FY2016. Such change was mainly because we did not record any loss on disposal and written off of property, plant and equipment for FY2017, whereas we recorded RMB1.3 million on loss on disposal and written-off of property, plant and equipment for FY2016 primarily as a result of the written-off of certain equipment in relation to relocation of our production facilities in FY2016.

***Selling and Distribution Expenses***

Our selling and distribution expenses remained relatively stable at RMB2.9 million for FY2016 and FY2017, mainly as a result of the combined effects of (i) a decrease in staff cost primarily because some sales and marketing staff changed employment as a result of the supply and demand conditions of local labour market in Shenzhen; and (ii) an increase in depreciation.

***Administrative Expenses***

Our administrative expenses increased by RMB954,000, or by 41.7%, from RMB2.3 million for FY2016 to RMB3.2 million for FY2017, primarily due to: (i) an increase in staff costs mainly because the average salary of our administrative staff increased from 2016 to 2017 as determined by the supply and demand conditions of local labor market in Shenzhen, the average headcount for our administration department increased from 14 for FY2016 to 16 for FY2017, as well as our Group increased bonus payments to employees based on performance; and (ii) an increase in office expenses.

***Research and Development Expenses***

Our research and development expenses increased from RMB1.2 million for FY2016 to RMB1.4 million for FY2017, primarily because of expenses amounted to RMB312,000 related to research and development projects having moved into clinical trial stage during FY2017.

***Finance Costs***

Our finance costs decreased by RMB74,000, or by 57.8%, from RMB128,000 for FY2016 to RMB54,000 for FY2017, primarily due to a decrease in interest on relevant bank borrowings as our Group made repayments. Please refer to the paragraph headed "– Indebtedness" in this section for further details.

***[REDACTED]***

Our Group did not incur any **[REDACTED]** for FY2016, while we incurred the **[REDACTED]** of RMB**[REDACTED]** for FY2017.

***Income Tax Expense***

Our income tax expense increased by RMB187,000, or by 12.3%, from RMB1.5 million for FY2016 to RMB1.7 million for FY2017, primarily due to an increase in our taxable income.

***Loss for the Period***

As a result of the foregoing, we recorded loss of RMB2.0 million for FY2017 representing a decrease of RMB10.4 million as compared to our profit of RMB8.4 million for FY2016. The loss recorded for FY2017 was mainly attributable to the incurrence of **[REDACTED]** of RMB**[REDACTED]**.

**FY2016 Compared to FY2015**

***Revenue***

Our total revenue increased by RMB5.9 million, or by 30.6%, from RMB19.5 million for FY2015 to RMB25.4 million for FY2016, mainly attributable to: (i) an increase in revenue from the sales of male fertility IVD reagents; (ii) an increase in revenue from the sales of auxiliary reproductive supplies and equipment; and (iii) an increase in revenue from the sales of our parasite antibody detection reagents.

*Revenue by Product Category*

- *Male fertility IVD reagent sales.* Revenue from the sales of our male fertility IVD reagent increased by RMB5.2 million, or by 30.8%, from RMB17.0 million for FY2015 to RMB22.2 million for FY2016, mainly attributable to an increase in the sales volume of our male fertility IVD reagents across four categories, primarily because the PRC government implemented the universal two-child policy in January 2016 and some of our existing customers increased their purchases of our products.

- *Parasite antibody detection reagent sales.* Revenue from the sales of our parasite antibody detection reagents increased by RMB338,000, or by 38.1%, from RMB888,000 for FY2015 to RMB1.2 million for FY2016. Such increase was mainly attributable to (i) an increase in the sales of our detection kit for IgG antibody to liver fluke, primarily because such product is one of the only two liver fluke IVD reagents which the CFDA has approved up to date and our customers further increased their purchases in that year; and (ii) an increase in the sales volume of our detection kit for IgG antibody to schistosoma japonicum, as our customers steadily increased their purchases of that product in 2016.

- *EBV antibody detection reagent sales.* Revenue from the sales of our EBV antibody detection reagent remain relatively stable at RMB1.1 million for FY2015 and RMB1.0 million for FY2016.

- *Auxiliary reproductive supply and equipment sales.* Revenue from the sales of third party auxiliary reproductive supplies and equipment increased by RMB424,000, or by 86.7%, from RMB489,000 for FY2015 to RMB913,000 for FY2016. Such increase was primarily attributable to (i) revenue from the

sales of the assembly-line type of full-automatic enzyme-linked immunologic workstation (流水線式全自動酶聯免疫工作站) which we commenced to sell in late 2016; and (ii) an increase in the sales of reagents and consumables which facilitate our customers to use our IVD reagents and/or are related to ART (such as anti-mullerian hormone detection kit (抗繆勒氏管激素定量檢測試劑盒) and sampling cups).

***Revenue by Sales Channel***

- *Direct sales.* Revenue from the direct sales of our products increased by RMB2.9 million, or by 26.2%, from RMB11.0 million for FY2015 to RMB13.9 million for FY2016, mainly attributable to an increase in the sales volume of our male fertility IVD reagents, primarily because the PRC government implemented the universal two-child policy in January 2016 and some of our existing direct sales customers increased their purchases of our products.

- *Sales to our distributors.* Revenue from the sales of our products to our distributors increased by RMB3.1 million, or by 36.3%, from RMB8.4 million for FY2015 to RMB11.5 million for FY2016, mainly attributable to: (i) an increase in sales volume of our male fertility IVD reagents primarily because our existing distributors increased their purchases of our products after the implementation of the universal two-child policy by the PRC government in January 2016 and an increasing number of new distributors made new purchases of our products as the total number of our distributors increased from 111 as at 31 December 2015 to 133 as at 31 December 2016; and (ii) revenue from the sales of the assembly-line type of full-automatic enzyme-linked immunologic workstation (流水線式全自動酶聯免疫工作站) which we commenced to sell in late 2016 and an increase in the sales of consumables which facilitate our customers to use our IVD reagents.

***Cost of Sales, Gross Profit and Gross Profit Margin***

Our total cost of sales increased by RMB2.7 million, or by 53.1%, from RMB5.1 million for FY2015 to RMB7.8 million for FY2016 primarily attributable to: (i) an increase in costs of raw materials mainly because we increased our purchases of raw materials for manufacture of IVD reagents from 2015 to 2016; and (ii) an increase in staff costs mainly because the average salary levels of our production employees increased for FY2016, as compared to those for FY2015.

As a result of the foregoing, our total gross profit increased by RMB3.2 million, or by 22.6%, from RMB14.4 million for FY2015 to RMB17.6 million for FY2016. Our overall gross profit margin slightly decreased from 73.8% for FY2015 to 69.4% for FY2016.

***Other Income***

Our other income decreased by RMB1.8 million, or by 85.4%, from RMB2.2 million for FY2015 to RMB313,000 for FY2016, primarily due to: (i) a decrease in interest income on loans to Shenzhen Junxuan as a result of decreasing principal amount of such loans due to loan repayments by Shenzhen Junxuan in FY2016; and (ii) a decrease in government grants recognised in the profit or loss account, mainly because we relocated our production facilities to a new district in Shenzhen in August 2016 and only part of the tax records for FY2016 after relocation can be used for the government grant applications provided by the local authority of new district.

***Other Losses***

Our other losses increase by RMB1.4 million from RMB89,000 for FY2015 to RMB1.5 million for FY2016, mainly due to an increase in loss on disposal and the written-off of property, plant and equipment primarily as a result of the written-off of certain equipment due to relocation of our production facilities in 2016.

***Selling and Distribution Expenses***

Our selling and distribution expenses increased by RMB176,000, or by 6.4%, from RMB2.7 million for FY2015 to RMB2.9 million for FY2016, primarily as a result of increase in marketing expenses and travelling expenses as we carried out more sales and marketing activities in the PRC to increase our product sales, the effect of which was partially offset by a decrease in staff cost as some sales and marketing staff changed employment as a result of the supply and demand conditions of local labour market in Shenzhen.

***Administrative Expenses***

Our administrative expenses increased by RMB725,000, or by 46.3%, from RMB1.6 million for FY2015 to RMB2.3 million for FY2016, primarily due to (i) an increase in staff costs as the average headcount of our administration department increased from 12 for FY2015 to 14 for FY2016; (ii) an increase in professional fees of RMB264,000 incurred in relation to financial consultancy services rendered to us in FY2016; and (iii) an increase in office expenses for our expanded operation scale from FY2015 to FY2016.

***Research and Development Expenses***

Our research and development expenses decreased from RMB1.6 million for FY2015 to RMB1.2 million for FY2016, primarily because our 12 research projects had been completed in FY2015 and we had six active research projects in FY2016.

***Finance Costs***

Our finance costs decreased by RMB1.2 million, or by 90.0%, from RMB1.3 million for FY2015 to RMB128,000 for FY2016, primarily as a result of a decrease in interest on bank borrowings after our Group made repayments. Please refer to the paragraph headed "– Indebtedness" in this section for further details.

***[REDACTED]***

We did not incur any **[REDACTED]** for FY2015 and FY2016.

***Income Tax Expense***

Our income tax expense increased by RMB249,000, or by 19.6%, from RMB1.3 million for FY2015 to RMB1.5 million for FY2016, primarily due to an increase in our taxable income.

***Profit for the Year***

As a result of the foregoing, our profit for the year increased by RMB492,000, or by 6.2%, from RMB7.9 million for FY2015 to RMB8.4 million for FY2016.

## NET CURRENT ASSETS

The following table sets forth our current assets and current liabilities as at the balance sheet dates indicated:

| | As at 31 December | | | As at 31 May | As at 30 September |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000 (unaudited)* |
| **Current assets** | | | | | |
| Inventories | 2,381 | 2,408 | 1,945 | 1,851 | 1,949 |
| Trade receivables | 7,368 | 9,414 | 9,848 | 11,388 | 11,938 |
| Other receivables, deposits and prepayments | 2,906 | 1,446 | 4,311 | 5,109 | 7,128 |
| Amount due from a director | 273 | – | – | – | – |
| Loan to Shenzhen Junxuan | 600 | 600 | – | – | – |
| Structured deposit [(1)] | – | – | – | – | 2,000 |
| Bank balances and cash | 6,093 | 15,914 | 19,811 | 17,814 | 17,145 |
| **Subtotal** | 19,621 | 29,782 | 35,915 | 36,162 | 40,160 |
| **Current liabilities** | | | | | |
| Trade payables | 706 | 1,193 | 866 | 877 | 705 |
| Other payables and accrued charges | 2,058 | 2,424 | 7,942 | 8,904 | 9,831 |
| Amount due to Shenzhen Junxuan | 5,299 | 6,157 | 110 | – | – |
| Bank borrowing | 600 | 600 | – | – | – |
| Contract liabilities | 552 | 199 | 194 | 178 | 235 |
| Tax payable | 1,248 | 2,059 | 1,700 | 725 | 1,462 |
| **Subtotal** | 10,463 | 12,632 | 10,812 | 10,684 | 12,233 |
| **Net current assets** | 9,158 | 17,150 | 25,103 | 25,478 | 27,927 |

*Note:* (1) The structured deposit is a principal protected structured deposit issued by a PRC state-owned bank, which is repayable on demand with expected return of up to 2.3% per annum.

We had net current assets of RMB27.9 million as at 30 September 2018, being the latest practicable date for determining our Group's indebtedness. Our net current assets increased by RMB2.4 million as compared to net current assets of RMB25.5 million as at 31 May 2018, mainly as a result of (i) an increase in other receivables, deposits and prepayments from RMB5.1 million as at 31 May 2018 to RMB7.1 million as at 30 September 2018; (ii) an increase in structured deposit of RMB2.0 million as at 30 September 2018; and (iii) an increase in other payables and accrued charges from RMB8.9 million as at 31 May 2018 to RMB9.8 million as at 30 September 2018 mainly as a result of **[REDACTED]** incurred.

We had net current assets of RMB25.5 million as at 31 May 2018, compared to net current assets of RMB25.1 million as at 31 December 2017. Such increase in our net current assets was primarily due to: (i) a decrease in bank balances and cash from RMB19.8 million as at 31 December 2017 to RMB17.8 million as at 31 May 2018, mainly as a result of the **[REDACTED]** incurred and deposits paid for acquisitions of property, plant and equipment; (ii) an increase of trade receivables from RMB9.8 million as at 31 December 2017 to RMB11.4 million as at 31 May 2018 due to the increase in trade receivables due from our direct sale customers who are generally with longer credit period from our distributors; and (iii) a decrease in tax payable of RMB975,000.

We had net current assets of RMB25.1 million as at 31 December 2017, compared to net current assets of RMB17.2 million as at 31 December 2016. Such increase in our net current assets was primarily due to: (i) an increase in bank balances and cash from RMB15.9 million as at 31 December 2016 to RMB19.8 million as at 31 December 2017, mainly as a result of investment made by the **[REDACTED]** Investors on 31 August 2017; (ii) an increase in other receivables, deposits and prepayments from RMB1.4 million as at 31 December 2016 to RMB4.3 million as at 31 December 2017, mainly as a result of **[REDACTED]**; and (iii) a decrease in amount due to Shenzhen Junxuan of RMB6 million, the effects of which were partially offset by (i) an increase in other payables and accrued charges and contract liabilities from RMB2.6 million as at 31 December 2016 to RMB8.1 million as at 31 December 2017, mainly due to accrued **[REDACTED]**; and (ii) a decrease in bank borrowing of RMB600,000.

We had net current assets of RMB17.2 million as at 31 December 2016, compared to our net current assets of RMB9.2 million as at 31 December 2015. The increase was primarily due to: (i) an increase in bank balances and cash from RMB6.1 million as at 31 December 2015 to RMB15.9 million as at 31 December 2016; and (ii) an increase in trade receivables from RMB7.4 million as at 31 December 2015, to RMB9.4 million that as at 31 December 2016, primarily because we sold more IVD reagents on credit to our customers, the effects of which were partially offset by (i) a decrease in other receivables, deposits and prepayments from RMB2.9 million as at 31 December 2015 to RMB1.4 million as at 31 December 2016 primarily as result of settlement of the outstanding balance of other receivables by third parties; (ii) an increase in amount due to Shenzhen Junxuan as we borrowed funds for our working capital needs; and (iii) an increase in tax payables from RMB1.2 million as at 31 December 2015 to RMB2.1 million as at 31 December 2016 mainly due to an increase in our taxable income.

**Inventories**

Our inventories consist of raw materials we purchase from suppliers and our finished goods, which we manufacture at our production facilities. Inventories are valued at the lower of net realisable value and cost. Net realisable value represents the estimated selling price less estimated costs of completion and estimated costs necessary to make the sale.

The following table sets forth our inventories as at the dates indicated:

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Raw materials | 1,373 | 1,162 | 931 | 1,011 |
| Finished goods | 1,008 | 1,246 | 1,014 | 840 |
| **Total** | 2,381 | 2,408 | 1,945 | 1,851 |

Raw materials consist primarily of raw materials, consumables and packaging materials used in our manufacture activities. Finished goods represent our finished IVD reagents as well as auxiliary reproductive supplies for trading.

Our inventory of raw materials and our inventory of finished goods remained relatively stable during the Track Record Period. Our inventory of finished goods increased by RMB238,000, or by 23.6%, from RMB1.0 million as at 31 December 2015 to RMB1.2 million as at 31 December 2016, decreased by RMB232,000, or by 18.6%, from RMB1.2 million as at 31 December 2016 to RMB1.0 million as at 31 December 2017, and further decreased by RMB174,000, or by 17.2%, from RMB1.0 million as at 31 December 2017 to RMB840,000 as at 31 May 2018. Our inventory of finished goods varied throughout the Track Record Period, primarily because we adjusted our production volume of IVD reagents in accordance with the relevant production plan.

We have also established an inventory management system that monitors each stage of the warehousing process. We maintain inventory control with respect to the ordering, storing, retrieving and purchase of raw materials and the storing and retrieving of finished products. We monitor and review our inventory levels and seek to maintain a reasonable level of inventories during our production process. In order to avoid risk and undue expenses arising from over-stocking, we places purchase orders for raw materials and as well as auxiliary reproductive supplies for trading and maintain a proper level of inventories according to our sales forecasts which are based on the historical sales of our finished IVD reagents and auxiliary reproductive supplies for trading as well as our experience and expected market demand for these products. We monitor and review our inventory levels on a regular basis and seek to maintain a reasonable level of inventories throughout our production process. We estimate production volume for our finished IVD reagents and maintain a proper level of inventories according to our sales forecasts. We monitor and assess the sales performance of relevant IVD reagents so that we can adjust our product mix and relevant production plans. Please refer to the subsection headed "Business – Suppliers and Raw Materials – Inventory" in this document for further details of our inventory management.

We will increase the purchases of raw materials when we believe it is prudent to do so based on the raw material prices and our estimated production volume and sales of finished IVD reagents. Please also refer to Note 4 "Significant Accounting Policies – Inventories" to the Accountants' Report included in Appendix I to this document for further details of our accounting policies on inventories.

The following table sets forth our inventory turnover days for the periods indicated:

| | Year ended 31 December | | | Five months ended 31 May |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| Inventory turnover days[(1)] | 159 | 112 | 99 | 101 |

*Note:*

(1) Inventory turnover days are calculated by dividing the average balances of inventories by the corresponding cost of sales for the year and then multiplying by 365 days for FY2015, FY2016 and FY2017 or multiplying by 151 days for the five months ended 31 May 2018. Average inventory equals inventories at the beginning of the year plus inventories at the end of the year and divided by two.

Our inventory turnover days decreased during the Track Record Period in general, primarily because we enhanced our overall management of inventories and maintained a reasonable inventory level for our production. Our inventory turnover days for FY2016, FY2017 and the five months ended 31 May 2018 were relatively low, compared to that for FY2015, primarily because we maintained a reasonable and stable level of inventories while our total cost of sales increased as a result of increased sales of IVD reagents.

RMB1.2 million, or 67.0%, of the inventories as at 31 May 2018 had been subsequently utilised or sold as at 22 November 2018, being the Latest Practicable Date. During the Track Record Period, we did not record provision for impairment of inventories.

**Trade Receivables**

The following table sets forth the total amounts of our trade receivables as at the dates indicated:

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade receivables | 8,260 | 10,421 | 11,277 | 12,697 |
| Less: allowance of doubtful debts | (892) | (1,007) | (1,429) | (1,309) |
| **Total** | 7,368 | 9,414 | 9,848 | 11,388 |

Our trade receivables balance mainly represents the outstanding amounts receivable by us from our customers in the PRC. Our trade receivables are initially recognised at fair value and subsequently measured at amortised costs less provision for impairment of trade receivables. Our management has maintained a strict control over outstanding balances of trade receivables and reviewed overdue amounts regularly. Please refer to the subsection "Business – Sales and Distribution – Credit Management Policy" in this document for further details of our credit management policy.

Our trade receivables increased during the Track Record Period. The increase in our trade receivables primarily reflected the increased sales of our IVD reagents to our customers in the PRC.

The following table is an aged analysis of trade receivables presented based on the goods delivery dates, which were the respective revenue recognition dates, at the end of each reporting period:

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| 0 – 30 days | 2,168 | 3,144 | 2,300 | 2,268 |
| 31 – 90 days | 2,718 | 2,567 | 3,276 | 3,553 |
| 91 – 180 days | 1,653 | 2,348 | 2,922 | 3,037 |
| 181 – 365 days | 829 | 1,062 | 1,350 | 2,314 |
| Over 365 days | – | 293 | – | 216 |
| **Total** | 7,368 | 9,414 | 9,848 | 11,388 |

In determining the recoverability of a receivable, we consider whether there has been adverse change in the credit standing of the debtor. Our management believe that there is no further credit provision required in excess of the allowance for doubtful debts already provided.

Included in our trade receivables are some debtors which are past due at each of the reporting periods. We has not provided for impairment loss as there has not been a significant change in credit quality of our trade receivables and the amounts are still considered recoverable. We are not holding any collateral over these balances and no interest is charged on overdue trade receivables.

We grant a credit period of one to six months to some direct sales customers and distributors after delivery of our IVD reagents. Our trading terms with our customers vary depending on a number of factors, including their historical payments, business performance, market positions, significant financial difficulties of debtors, possibility of default or delinquent payments, as well as probability of filing for bankruptcy by debtors or being subject to a financial reorganisation. We have taken into account the impact on our working capital position when granting the credit limits to our customers. During the Track Record Period, we did not experience any difficulties in working capital requirement and maintained sufficient cash flow to support our operation through product sales and capital contribution by our shareholders.

As at 31 May 2018, our trade receivables amounted to approximately RMB11.4 million, out of which approximately RMB7.3 million and RMB4.1 million were attributable to our direct sales customers and distributors, respectively.

The following table sets forth our trade receivables turnover days for the years indicated:

| | Year ended 31 December | | | Five months ended 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| Trade receivables turnover days[(1)] . | 117 | 121 | 132 | 146 |

*Note:*

(1) Trade receivables turnover days are calculated by dividing the average trade receivables (less allowance for doubtful debts) by the corresponding revenue for the year and then multiplying by 365 days for FY2015, FY2016, FY2017 or multiplying by 151 days for the five months ended 31 May 2018. Average trade receivables equals trade receivables (net of allowance for doubtful debts) at the beginning of the year plus trade receivables (net of allowance for doubtful debts) at the end of the year and divided by two.

Our trade receivables turnover days remained relatively stable at 117 days for FY2015 and at 121 days for FY2016 as we enhanced our overall management of trade receivables for our increased sales. Our trade receivable turnover days for FY2017 were relatively high, primarily because of the increase in our trade receivable due to our increased revenue for FY2017, as compared to that for FY2016. Our trade receivable turnover days for the five months ended 31 May 2018 increased to 146 days, primarily because of the increase in trade receivables due from our direct sale customers who are generally with longer credit period than our distributors.

The following table sets forth an ageing analysis of trade receivables which are past due but not impaired at the end of the reporting period:

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| 0 – 30 days . . . . . | 1,646 | 2,534 | 1,866 | 1,647 |
| 31 – 90 days . . . . . | 1,945 | 1,879 | 2,471 | 2,728 |
| 91 – 180 days . . . . . | 1,137 | 1,582 | 2,591 | 2,047 |
| 181 – 365 days . . . . . | 829 | 1,062 | 1,265 | 2,294 |
| Over 365 days . . . . . | – | 293 | – | 216 |
| | 5,557 | 7,350 | 8,193 | 8,932 |

An allowance for doubtful debts of RMB176,000, RMB250,000, RMB473,000 and RMB276,000 was provided for FY2015, FY2016, FY2017 and the five months ended 31 May 2018, respectively. A reversal of allowance of doubtful debts of RMB138,000, RMB135,000, RMB51,000 and RMB396,000 was also made for FY2015, FY2016, FY2017 and the five months ended 31 May 2018 respectively. The net effect of the allowance for doubtful debts provided and the reversal of allowance made on trade receivables of

RMB38,000, RMB115,000 and RMB422,000 was charged to other losses in the statement of profit or loss and for FY2015, FY2016 and FY2017, respectively, and RMB120,000 was charged to other gains in the statement of profit or loss for the five months ended 31 May 2018, respectively.

As at 31 December 2015, 31 December 2016, 31 December 2017 and 31 May 2018, our trade receivables of RMB5.6 million, RMB7.4 million, RMB8.2 million and RMB8.9 million were past due but not impaired, respectively. Trade receivables that were past due but not impaired relate to a number of our customers who have good payment records with our Group. Our trade receivables past due but not impaired of RMB8.9 million as at 31 May 2018 comprised RMB6.2 million and RMB2.7 million attributable to our direct sales customers and distributors, respectively.

Based on our past experience, our Directors are of the view that no allowance for doubtful debts is necessary for these balances as there has not been any sign of significant adverse change in credit strength of these customers. Furthermore, for the same reason, our Directors are of the view that our credit management policy and the relevant measures are appropriate despite the increasing trend for our trade receivables and trade receivables turnover days. As such, our Directors are of the view, and our Sole Sponsor concurs, that such increases in trade receivables and trade receivables turnover days would not have material affect on the liquidity and cash flows of our Group.

RMB7.1 million, or 62.8%, of the trade receivables as at 31 May 2018 had been subsequently settled as at 22 November 2018, being the Latest Practicable Date.

**Other Receivables, Deposits and Prepayment**

The following table sets forth the total amount of our other receivables, deposits and repayment:

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Other receivables | 2,834 | 1,599 | 475 | 481 |
| Less: allowance of doubtful debts | (322) | (366) | (70) | (61) |
| | 2,512 | 1,233 | 405 | 420 |
| Rental and other deposits | 173 | – | – | – |
| Prepayment of rental expenses | – | – | – | 336 |
| Advance payment to suppliers | 221 | 213 | 364 | 250 |
| **[REDACTED]** | – | – | [REDACTED] | [REDACTED] |
| | 2,906 | 1,446 | 4,311 | 5,109 |

Our other receivables consisted primarily of: (i) amounts due from Beijing Dahua of RMB1.0 million as at 31 December 2015 and 31 December 2016 in relation to an investment cooperation agreement between our Group and Beijing Dahua in 2012; (ii) advances to third parties; (iii) receivables from employees in relation to social insurance and housing provident fund which our Group had paid on behalf of employees;

and (iv) advances to employees in relation to daily business operation of our Group. We should make prepayment, as well as provided trainings and other supports, to Beijing Dahua pursuant to the terms of investment cooperation agreement, and Beijing Dahua then sold and promoted our products within in the region designated by us. In 2013 our Group terminated the investment cooperation agreement with Beijing Dahua as the results did not meet our expectations, and Beijing Dahua agreed to return the remaining balance of our prepayment. Our Directors confirmed that Beijing Dahua returned our prepayment in full in September 2017. Our rental and other deposits primarily consisted of deposits paid in connection with properties leased by us for our business operation. Our advance payment to suppliers primarily consisted of advance payments to our suppliers in relation to purchases of raw materials and accounting system service. For details of our **[REDACTED]** as at 31 December 2017 and 31 May 2018, please refer to the paragraph headed "– **[REDACTED]**" in this section.

**Trade Payables**

Our trade payables consist primarily of the balances of raw materials, consumables and packaging materials for our manufacturing activities due to our suppliers. Our trading terms with suppliers vary depending on a number of factors, in particular the type of products.

Our trade payables balances as at 31 December 2015, 31 December 2016, 31 December 2017 and 31 May 2018 were approximately RMB706,000, RMB1.2 million, RMB866,000 and RMB877,000, respectively. Our trade payable balances varied throughout the Track Record Period primarily because we adjust our purchases of raw materials, consumables and packaging materials for our production in order to reduce any impact of increases in raw material prices and control our procurement costs and follow the relevant production plan.

Some of our suppliers may deliver raw materials, consumables and packaging materials to us without requesting advance payment. The following table sets forth an ageing analysis of trade payables presented based on the invoice date at the end of each reporting period:

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| 0-30 days | 58 | 275 | 164 | 157 |
| 31-90 days | 102 | 304 | 151 | 238 |
| Over 90 days | 546 | 614 | 551 | 482 |
| **Total** | 706 | 1,193 | 866 | 877 |

Our trade payables are non-interest bearing and are settled within a month. The following table sets forth our trade payables turnover days for the periods indicated:

| | Year ended 31 December | | | Five months ended 31 May |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| Trade payables turnover days[(1)] . . . | 53 | 45 | 47 | 46 |

*Note:*

(1) Trade payables turnover days are calculated by dividing the average trade payables for the relevant period by the corresponding cost of sales for the year and then multiplying by 365 days for FY2015, FY2016 and FY2017 or multiplying by 151 days for the five months ended 31 May 2018. Average trade payables equals trade payables at the beginning of the year plus trade payables at the end of the year and divided by two.

Our trade payables turnover days remained relatively stable during the Track Record Period. RMB470,000, or 53.6%, of the account payables as at 31 May 2018 had been subsequently settled as at 22 November 2018, being the Latest Practicable Date.

## LIQUIDITY AND CAPITAL RESOURCES

### Financial Resources

We have historically met our working capital and other capital requirements principally with a combination of capital contributions by shareholders and cash generated from our operations. Our primary liquidity requirements are to finance our working capital, fund the payments of interest and principal due on our indebtedness and fund the capital expenditures for expansion of our operation scale. In the future, we expect to continue to mainly rely on our cash flow from operations to fund our working capital needs and will use the proceeds from the **[REDACTED]** to finance part of our business expansion. As at 30 September 2018, being the latest practicable date for determining the Group's indebtedness, we had nil banking facilities available to us from commercial banks and cash and bank balances of RMB17.1 million.

The following table is a condensed summary of our consolidated statements of cash flows for the periods indicated:

| | Year ended 31 December | | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (*unaudited*) | *RMB'000* |
| Net cash from (used in) operating activities | 5,455 | 11,255 | 2,699 | 578 | 57 |
| Net cash from (used in) investing activities | 6,246 | (1,569) | (4,380) | (2,425) | (1,735) |
| Net cash (used in) from financing activities | (9,131) | 135 | 5,578 | (2,354) | (319) |
| Net increase (decrease) in cash and cash equivalents | 2,570 | 9,821 | 3,897 | (4,201) | (1,997) |
| Cash and cash equivalent at the beginning of the year | 3,523 | 6,093 | 15,914 | 15,914 | 19,811 |
| Cash and cash equivalents at the end of the year | 6,093 | 15,914 | 19,811 | 11,713 | 17,814 |

***Operating Activities***

During the Track Record Period, we derived our cash inflows from operating activities primarily from the receipt of payments from our customers for the sale of our products. Our cash flows from operating activities can be significantly affected by factors such as the timing of receipt of trade receivables from our customers and our payments of trade payables to suppliers of raw materials in the normal course of business.

For FY2015, our net cash from operating activities was RMB5.5 million, while our cash flows from operating activities before movements in working capital was RMB8.9 million. The difference of RMB3.4 million was primarily attributable to (i) an increase in trade receivables of RMB2.3 million as we sold more IVD reagents on credit to our customers; and (ii) an increase in other receivables, deposits and prepayments of RMB687,000 as our Group made advances to third parties, the effects of which were partially offset by an increase in other payables and accrued charges primarily as a result of an increase in the amount due to Shenzhen Junxuan for the purchases of new equipment and renovation of our production premises that we later used for our production in 2016.

For FY2016, our net cash from operating activities was RMB11.3 million, while our cash flows from operating activities before movements in working capital was RMB12.2 million. The difference of RMB900,000 was primarily attributable to an increase in trade receivables of RMB2.2 million as we sold more IVD reagents on credit to our customers, the effect of which was partially offset by an decrease in other receivables, deposits and prepayments of RMB1.4 million mainly due to a decrease in other receivables primarily as a result of repayment of such other receivables.

For FY2017, our net cash from operating activities was RMB2.7 million, while our cash flows from operating activities before movements in working capital was RMB1.2 million. The difference of RMB1.5 million was primarily attributable to the combined effects of: (i) an increase in other payables and accrued charges of RMB3.3 million as a result of an increase in accrued **[REDACTED]**; and (ii) a decrease in other receivables, deposits and prepayments of RMB973,000, the effect of which was partially offset by (i) an increase in trade receivables of RMB856,000 as we sold more IVD reagents on credit to our customers and (ii) the tax paid of RMB2.1 million.

For the five months ended 31 May 2018, our net cash from operating activities was RMB57,000, while our cash flows from operating activities before movements in working capital was RMB2.7 million. The difference of RMB2.7 million was primarily attributable to the combined effects of: (i) an increase in trade receivables of RMB1.4 million due to the increase in trade receivables due from our direct sale customers who are generally with longer credit period from our distributors; and (ii) the tax paid of RMB1.7 million, the effect of which was partially offset by an increase in other payables and accrued charges of RMB0.5 million due to an increase in accrued **[REDACTED]**.

***Investing Activities***

During the Track Record Period, our cash flow used in investing activities primarily related to costs incurred for acquisitions of property, plant and equipment and development in relation to our manufacturing activities as well as loans to, and repayment from, Shenzhen Junxuan.

For FY2015, our net cash generated from investing activities was RMB6.2 million, primarily attributable to: (i) repayment from Shenzhen Junxuan of RMB26.1 million in relation to prior loans to Shenzhen Junxuan in the aggregate amount of RMB34.0 million in 2014 and 2015 (RMB6.4 million of which Shenzhen Junxuan had repaid in 2014 and RMB600,000 of which Shenzhen Junxuan had subsequently repaid in 2016); (ii) interest income of RMB1.3 million in relation to the aforesaid loans to Shenzhen Junxuan, the effects of which were partially offset by (i) loans made to Shenzhen Junxuan of RMB17.0 million in 2015; and (ii) acquisition of property, plant and equipment of RMB2.6 million mainly in relation to payments for purchases of the enzyme-linked immunosorbent assay reader and equipment for our product research as well as manufacture operation.

For FY2016, our net cash used in investing activities was RMB1.6 million, primarily attributable to: acquisition of property, plant and equipment of RMB2.1 million mainly in relation to purchases of water purification equipment, sterilisation equipment and other equipment for our manufacturing activities, as well as office renovation, the effect of which was partially offset by repayment from Shenzhen Junxuan in the amount of RMB600,000 in relation to prior loans to Shenzhen Junxuan in 2014 and 2015.

For FY2017, our net cash used in investing activities was RMB4.4 million, primarily attributable to acquisition of property, plant and equipment of RMB4.2 million in relation to payments for purchases of plant and equipment, including low temperature surgical system and flow cytometric analyzer.

For the five months ended 31 May 2018, our net cash used in investing activities was RMB1.7 million, primarily attributable to (i) deposits paid for acquisition of property, plant and equipment of RMB1.1 million in relation to equipment for research and development as well as testing purposes and computer software for business use; and (ii) research and development costs paid.

***Financing Activities***

During the Track Record Period, our cash flows relating to financing activity primarily related to our receipt and repayment of our short-term borrowings, our new bank borrowings as well as repayment from, and advance to, Shenzhen Junxuan.

For FY2015, our net cash used in financing activities was RMB9.1 million, primarily attributable to: (i) repayment of our bank borrowings in the amount of RMB26.1 million; and (ii) RMB1.3 million in relation to interests on bank borrowings and bank charges, the effects of which were partially offset by (i) new bank borrowing in the total amount of RMB17.0 million in relation to loan to Shenzhen Junxuan; and (ii) advance from Shenzhen Junxuan of RMB1.5 million for Shenzhen Huakang's daily operation.

For FY2016, our cash generated from financing activities was RMB135,000, primarily attributable to advance from Shenzhen Junxuan of RMB4.5 million for Shenzhen Huakang's daily operations, the effect of which was partially offset by repayment to Shenzhen Junxuan in the amount of RMB3.6 million.

For FY2017, our net cash from financing activities was RMB5.6 million, primarily attributable to proceeds of RMB**[REDACTED]**, from investment made by **[REDACTED]** Investors on 31 August 2017; the effect of which was partially offset by repayment to Shenzhen Junxuan of RMB6.0 million.

For the five months ended 31 May 2018, our net cash used in financing activities was RMB319,000, primarily attributable to deferred issuance costs of new shares of RMB209,000 and repayment to Shenzhen Junxian of RMB110,000.

## WORKING CAPITAL STATEMENT

Taking into account the financial resources available to our Group, including the internally generated funds and the estimated net proceeds of the **[REDACTED]**, and in the absence of unforeseen circumstances, our Directors are of the opinion, and the Sole Sponsor concurs, that our Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this document.

## INDEBTEDNESS

### Bank borrowing

During the Track Record Period, our Group's bank borrowing were unsecured bank loan denominated in RMB. The following table sets forth the components of our borrowings as at the date indicated:

| | As at 31 December | | | As at 31 May | As at 30 September |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Unsecured bank borrowing . . . | 1,550 | 950 | – | – | – |
| Carrying amounts of the above borrowing repayable: | | | | | |
| Within one year . . . . . | 600 | 600 | – | – | – |
| More than one year but not exceeding two years . . . . | 600 | 350 | – | – | – |
| More than two years but not more than five years . . . . | 350 | – | – | – | – |
| | 1,550 | 950 | – | – | – |
| Less: Amounts due within one year shown under current liabilities . . . . . | (600) | (600) | – | – | – |
| Amounts shown under non-current liabilities . . . . . | 950 | 350 | – | – | – |

Our bank borrowing bears interest rate at 9.5% per annum as at 31 December 2015 and 31 December 2016.

As at 31 December 2015 and 31 December 2016, our bank borrowing was secured by guarantees provided by Mr. Zhang (our Executive Director and Controlling Shareholder), Mr. Chang (a Controlling Shareholder) and Shenzhen Junxuan (a former shareholder of Shenzhen Huakang).

As at 31 May 2018, we had no bank borrowings.

As at 30 September 2018, being the latest practicable date for the purpose of this indebtedness statement, our Group has no outstanding borrowings and did not have any banking facilities. Except as aforesaid, we did not have, as at 30 September 2018, any other outstanding loan issued and outstanding or agreed to be issued, debt securities, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance leases, hire purchases commitments, guarantees or other material contingent liabilities.

Our Directors confirm that (i) there had not been any material change in our indebtedness and contingent liabilities since 30 September 2018 and up to the Latest Practicable Date; (ii) our Group did not have any banking facilities as at the Latest Practicable Date; and (iii) our Group did not have any material external debt financing plans as at the Latest Practicable Date.

## OFF-BALANCE SHEET ARRANGEMENTS

As at 30 September 2018, being the latest practicable date for determining our indebtedness, we did not have any off-balance sheet arrangements.

## RELATED PARTY TRANSACTION

During the Track Record Period, we had certain related party transactions. These transactions were conducted in accordance with terms as agreed between us and the respective related parties. We confirm that all related party transactions during the Track Record Period were conducted on arm's length basis and on normal commercial terms. There are transactions between our Group and Shenzhen Junxuan which will constitute continuing connected transaction upon the **[REDACTED]**. Please refer to the section headed "Connected Transaction" of this document for further details.

### Balances with Related Parties

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Non-current assets** | | | | |
| Loan to Shenzhen Junxuan . . . . . | 950 | 350 | – | – |
| **Current assets** | | | | |
| Amount due from a director . . . . . | 273 | – | – | – |
| Prepayment of rental expenses to Shenzhen Junxuan . . . . . | – | – | – | 336 |
| Loan to Shenzhen Junxuan . . . . . | 600 | 600 | – | – |
| **Current liabilities** | | | | |
| Amount due to Shenzhen Junxuan . | 5,299 | 6,157 | 110 | – |

As at 31 December 2015 and 31 December 2016, the loan to Shenzhen Junxuan was unsecured, interest bearing at a fixed rate of 9.5% per annum and repayable in next 36 months from the date of drawn down.

As at 31 December 2015, the amount due from a director represented the advance to Mr. Zhang Chunguang. It was unsecured, non-trade in nature and non-interest bearing.

As at 31 December 2015, 31 December 2016, 31 December 2017 and 31 May 2018, the amount due to Shenzhen Junxuan represented the advance from Shenzhen Junxuan for Shenzhen Huakang's daily operation. It was unsecured, non-trade in nature, non-interest bearing and repayable on demand. The amount was fully settled in August 2017.

For more information on our related party transactions and balances with related parties, please refer to note 20, note 21, note 25 and note 34 to the Accountants' Report set out in Appendix I to this document.

## COMMITMENTS

### Capital Expenditures

We have historically funded our capital expenditures through cash generated from our operations and bank borrowings. During the Track Record Period, our capital expenditures primarily comprise of (i) renovation and improvement of our production facilities; and (ii) purchases of equipment and machinery at our production facilities.

The following table sets forth a breakdown of our capital expenditures for the periods indicated:

| | Year ended 31 December | | | Five months ended 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Property, plant and equipment . . . | 2,613 | 2,057 | 5,908 | 375 |
| Intangible assets . . . . . | 975 | 515 | 788 | 670 |
| **TOTAL** . . . . . | 3,588 | 2,572 | 6,696 | 1,045 |

We expect to incur an aggregate amount of HK$5.8 million in 2018 and 2019 for developing new products and improving our existing products, of which the development costs that are directly attributable to the design and testing of identifiable assets controlled by our Group are recognised as intangible assets, whereas those, which are not directly attributable, will be recognised as an expense incurred. Please refer to Note 4 "Significant Accounting Policies – Intangible assets" to the Accountants' Report included in Appendix I to this document for further details on our accounting policies for research and development expenditure and refer to the section headed "Future Plans and **[REDACTED]**" in this document for further details of our expansion plan. We expect to finance our capital expenditures through a combination of operating cash flows and the net proceeds from the **[REDACTED]**. We may adjust our capital expenditures for any given period according to our development plans or in light of market conditions and other factors we believe to be appropriate.

### Capital Commitments

We had capital commitment of RMB947,000, RMB235,000, RMB221,000 and RMB137,000 as at 31 December 2015, 31 December 2016, 31 December 2017 and 31 May 2018 in relation to acquisition of property, plant and equipment for our production facilities.

### Operating Lease Commitments

*As Lessee*

Our operating lease payments represent rentals payable by us for production facilities and office premises for the Track Record Period. As at 31 December 2015, the operating lease payment is payable to an independent third party and the lease and rental were negotiated and fixed for a term of one year. Such lease was cancellable with not less than three months' notice. As at 31 December 2016, 31 December 2017 and 31 May 2018, the operating lease payment is payable to Shenzhen Junxuan and the lease and rentals were negotiated and fixed for a term of three years. None of the lease includes contingent rentals. The following table sets out our total future minimum lease payments under non-cancellable operating leases falling due as at the dates indicated:

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within one year . . . . . | 231 | 111 | 111 | 122 |

### [REDACTED]

For FY2015 and FY2016, we did not incur any **[REDACTED]**. For FY2017 and the five months ended 31 May 2018, we incurred **[REDACTED]** of RMB**[REDACTED]** (equivalent to HK$**[REDACTED]**) and RMB**[REDACTED]** (equivalent to HK$**[REDACTED]**) respectively. We expect to incur total **[REDACTED]** of approximately RMB**[REDACTED]** (equivalent to HK$**[REDACTED]**), of which our Group (i) has recognised RMB**[REDACTED]** (equivalent to HK$**[REDACTED]**) and RMB**[REDACTED]** (equivalent to HK$**[REDACTED]**) in the profit or loss for FY2017 and the five months ended 31 May 2018, respectively; (ii) expects to recognise RMB**[REDACTED]** (equivalent to HK$**[REDACTED]**) in the profit or loss for the year ending 31 December 2018; and (iii) expects to recognise RMB**[REDACTED]** (equivalent to HK$**[REDACTED]**) as a deduction in equity directly for the year ending 31 December 2018. Our Group's financial performance and results of operations for FY2017 and the five months ending 31 May 2018 have been, and those for the year ending 31 December 2018 will be, significantly and adversely affected by the one-off **[REDACTED]** as mentioned in the foregoing.

## DIVIDENDS AND DISTRIBUTABLE RESERVE

Our Group did not declare or pay any dividend during the Track Record Period. Please refer to note 14 to the Accountants' Report set out in Appendix I to this document for further details.

Our Company was incorporated in the Cayman Islands on 3 August 2017. Subject to the Companies Law and the Articles, our Company may declare dividends in any currency, but no dividend shall be declared in excess of the amount recommended by our Board. The declaration and payment of dividends and the amount of dividends in the future will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. There were no distributable reserves of our Company available for distribution to our Shareholders as at the Latest Practicable Date.

## KEY FINANCIAL RATIOS

The following table sets forth certain financial ratios as at the dates indicated:

| | For the year ended 31 December | | | Five months ended 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| Return on equity[(1)] | 50.3% | 34.8% | N/A | 3.8% |
| Return on total assets[(2)] | 28.9% | 22.5% | N/A | 3.0% |
| Gross profit margin[(3)] | 73.8% | 69.4% | 69.8% | 74.2% |
| Net profit margin[(4)] | 40.8% | 33.2% | N/A | 13.3% |

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| Current ratio (times)[(5)] | 1.9 times | 2.4 times | 3.3 times | 3.4 times |
| Quick ratio (times)[(6)] | 1.6 times | 2.2 times | 3.1 times | 3.2 times |
| Debt to equity ratio[(7)] | 4.8% | N/A | N/A | N/A |
| Gearing ratio[(8)] | 43.4% | 29.4% | 0.3% | N/A |

*Notes:*

(1) Return on equity is calculated by the profit and total comprehensive income for each reporting period divided by the total equity as at the end of each reporting period.

(2) Return on total assets is calculated by the profit and total comprehensive income for each reporting period divided by the total assets as at the end of each reporting period.

(3) Gross profit margin is calculated based on the gross profit divided by the revenue.

(4) Net profit margin is calculated based on the profit and total comprehensive income divided by the revenue.

(5) Current ratio is calculated based on the total current assets divided by the total current liabilities as at the end of each reporting period.

(6) Quick ratio is calculated based on the total current assets less inventories divided by the total current liabilities as at the end of each reporting period.

(7) Debt to equity ratio is calculated by the net debt divided by the total equity as at the end of each reporting period. Net debt is calculated as total borrowings less bank balances and cash. Total borrowings include bank borrowings and amount due to Shenzhen Junxuan.

(8) Gearing ratio is calculated based on total borrowings divided by the total equity as at the end of each reporting period. Total borrowings include bank borrowings and amount due to Shenzhen Junxuan.

**Return on Equity**

For FY2015 and FY2016, our return on equity was 50.3% and 34.8%, respectively. Our return on equity decreased from 50.3% for FY2015 to 34.8% for FY2016 because our reserves increased significantly from RMB12.3 million as at 31 December 2015 to RMB20.7 million as at 31 December 2016 as a result of profits generated in FY2015. Our return on equity was not applicable for FY2017 due to the loss-making position of our Group for FY2017 which was mainly attributable to the **[REDACTED]** of RMB**[REDACTED]** incurred in the period. Our return on equity was 3.8% for the five months ended 31 May 2018 which was mainly attributable to the **[REDACTED]** of RMB**[REDACTED]** incurred in the period.

**Return on Total Assets**

For FY2015 and FY2016, our return on total assets was 28.9% and 22.5%, respectively. Our return on assets decreased from 28.9% for FY2015 to 22.5% for FY2016 because of our total assets increased significantly from RMB27.5 million as at 31 December 2015 to RMB37.4 million as at 31 December 2016 due to an increase in bank balances and cash of RMB9.8 million. Such increase in bank balances and cash was mainly due to cash generated from operations as a result of profits generated in FY2015.

Our return on total assets was not applicable for FY2017 due to the loss-making position of our Group for FY2017 which was mainly attributable to the **[REDACTED]** of RMB**[REDACTED]** incurred in the period. Our return on total assets was 3.0% for the five months ended 31 May 2018 which was mainly attributable to the **[REDACTED]** of RMB**[REDACTED]** incurred in the period.

**Gross Profit Margin**

For FY2015, FY2016, FY2017 and the five months ended 31 May 2018, our gross profit margin was 73.8%, 69.4%, 69.8% and 74.2%, respectively. Such decrease from FY2015 to FY2016 was mainly due to the increase in staff costs relating to our manufacture activities as determined by the supply and demand of local labour market in Shenzhen. The slight increase in gross profit margin for the five months ended 31 May 2018 was mainly attributable to the decrease in staff costs relating to our manufacture activities.

**Net Profit Margin**

For FY2015 and FY2016, our net profit margin was 40.8% and 33.2% respectively. Our net profit margin decreased from 40.8% for FY2015 to 33.2% to FY2016 as our net profit after tax was relatively stable as compared with our increase in revenue.

Our net profit after tax increased by 6.2% from RMB7.9 million for FY2015 to RMB8.4 million for FY2016, while our revenue increased by 30.6% from RMB19.5 million for FY2015 to RMB25.4 million for FY2016. Net profit after tax did not increase along with the revenue, primarily attributable to: (i) a decrease

in other income of RMB1.8 million as a result of a decrease in interest income and a decrease in government grants, (ii) an increase in other losses of RMB1.4 million as a result of an one-off expenses recorded in loss on disposal and written-off of property, plant and equipment due to the relocation of our production facilities in 2016; and (iii) an increase in administrative expenses of RMB0.7 million as a result of an increase in staff cost and the professional fees for financial consultancy services.

Our net profit margin was not applicable for FY2017 due to the loss-making position of our Group for FY2017 which was mainly attributable to the **[REDACTED]** of RMB**[REDACTED]** incurred in the period. Our net profit margin was 13.3% for the five months ended 31 May 2018 which was mainly attributable to the **[REDACTED]** of RMB**[REDACTED]** incurred in the period.

**Current Ratio and Quick Ratio**

As at 31 December 2015, 31 December 2016, 31 December 2017 and 31 May 2018, our current ratio was 1.9 times, 2.4 times, 3.3 times and 3.4 times, respectively, while our quick ratio was 1.6 times, 2.2 times, 3.1 times and 3.3 times, respectively. Please refer to the paragraph "– Net Current Assets" in this section for further details of changes in our current assets and current liabilities over the Track Record Period.

**Debt to Equity Ratio**

As at 31 December 2015, our debt to equity ratio was 4.8%. Our debt to equity ratio as at 31 December 2016, 31 December 2017 and 31 May 2018 is not applicable as our Group was in net cash position as at 31 December 2016, 31 December 2017 and 31 May 2018.

**Gearing Ratio**

As at 31 December 2015, 31 December 2016 and 31 December 2017 our gearing ratio was 43.4%, 29.4% and 0.3%, respectively. As at 31 May 2018, the gearing ratio was not applicable.

Our Group's gearing ratio decreased from 43.4% as at 31 December 2015 to 29.4% as at 31 December 2016, mainly due to an increase in total equity of RMB8.4 million as a result of profits generated in FY2016 which were on reserves. Total borrowings were relatively stable at RMB6.8 million as at 31 December 2015 and RMB7.1 million as at 31 December 2016, respectively.

Our Group's gearing ratio further decreased from 29.4% as at 31 December 2016 to 0.3% as at 31 December 2017, mainly due to a decrease in total borrowings of RMB7.0 million from RMB7.1 million as at 31 December 2016 to RMB110,000 as at 31 December 2017. The decrease in total borrowings was a combined effects of (i) a decrease in amount due to Shenzhen Junxuan of RMB6.0 million; and (ii) a decrease in bank borrowings of RMB950,000.

Our Group's gearing ratio as at 31 May 2018 was not applicable as there was no borrowings as at 31 May 2018.

## FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Our Group is exposed to currency risk, interest rate risk, credit risk and liquidity risk in the normal course of business. Further details on our financial risk management policies and practices are set our in Note 30 "Financial Instruments" to the Accountants' Report included in Appendix I to this document.

## FINANCIAL INSTRUMENTS

During the Track Record Period, our major financial instruments include loan to Shenzhen Junxuan, trade receivables, other receivables, amount due from a director, bank balances and cash, trade payables, other payables, amount due to Shenzhen Junxuan, amount due to a director, amount due to a shareholder and bank borrowings.

During the Track Record Period, we did not enter into any other financial instruments for hedging purposes.

The risks associated with these financial instruments include market risks (interest rate risk), credit risk and liquidity risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

## UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

For our unaudited pro forma adjusted consolidated net tangible assets, please refer to the section headed "Unaudited Pro Forma Financial Information" in Appendix II to this document.

## DISCLOSURE REQUIRED UNDER THE GEM LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

## RECENT DEVELOPMENT AND MATERIAL ADVERSE CHANGE

Subsequent to the Track Record Period, we have continued to expand our client base. From 1 June 2018 up to the Latest Practicable Date, we recorded sales from our existing customers, as well as from our new customers.

Based on the unaudited management accounts of our Group for the four months ended 30 September 2018, our total revenue for such period remained relatively stable. Our average monthly revenue for such period increased slightly as compared to that for the five months ended 31 May 2018, which was mainly attributable to the increase in sales of our parasite antibody detection reagents.

Our Directors have confirmed that save as disclosed in the subsections abovementioned, up to the date of this document, there has been no material adverse change in our financial or trading position since 31 May 2018, the end of the period reported in the Accountants' Report as set out in Appendix I to this document, and there has been no event since 31 May 2018 which would materially affect the information shown in the Accountants' Report as set out in Appendix I to this document.

## BUSINESS OBJECTIVES AND STRATEGIES

Please refer to the subsection headed "Business – Our Strategies" of this document for our Group's business objectives and strategies.

## IMPLEMENTATION PLANS

In pursuance of the above business objectives, the implementation plans of our Group are set forth below from the **[REDACTED]** to 31 December 2018 and for each of the six-month periods until 31 December 2020. Investors should note that the following implementation plans are formulated on the bases and assumptions referred to the paragraph headed "Bases and Assumptions" in this section below. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors set forth in the section headed "Risk Factors" of this document.

Based on the **[REDACTED]** of HK$**[REDACTED]** per **[REDACTED]**, being the mid-point of the indicative **[REDACTED]** of HK$**[REDACTED]** per **[REDACTED]** to HK$**[REDACTED]** per **[REDACTED]**, the net proceeds from the **[REDACTED]** to our Company (after deduction of **[REDACTED]** fees and estimated expenses payable by us in relation to the **[REDACTED]** and the **[REDACTED]**) are estimated to be RMB**[REDACTED]** million (equivalent to HK$**[REDACTED]**). It is estimated that the total **[REDACTED]** of RMB**[REDACTED]** (equivalent to HK$**[REDACTED]**) will be incurred. Our Directors presently intend to apply such net proceeds as follows:

## (a) From the [REDACTED] to 31 December 2018

| Business strategies | Implementation activities | Proceeds |
|---|---|---|
| | | *HK$'000* |
| | **Development of new products** | |
| **Developing new products and improving our existing products** | • Developing new IVD reagents for male fertility diagnostic testing such as, sperm nucleus DNA integrity IVD reagent for flow cytometry technology platform, spermatozoa diagnostic reagent, sperm mitochondrial diagnostic reagent and anti-mullerian hormone with the application of chemiluminescence technology for assessing male fertility and reproduction potential<br>– Purchasing raw materials and equipment for the research and development of these products<br>– Conducting technical review by third parties<br>– Making registrations of sperm nucleus DNA integrating IND reagent | **[REDACTED]** |
| | **Improving existing products** | |
| | • Improving male fertility quantitative test kit reagents | **[REDACTED]** |
| **Expanding our sales network and enhancing our marketing activities** | • Expanding our sales network to Northern China | **[REDACTED]** |
| **Total** | | **[REDACTED]** |

## (b) From 1 January 2019 to 30 June 2019

| Business strategies | Implementation activities | Proceeds |
|---|---|---|
| | | *HK$'000* |
| | **Development of new products** | |
| **Developing new products and improving our existing products** | • Developing new IVD reagents for male fertility testing such as, sperm nucleus DNA integrity IVD reagent for flow cytometry technology platform, spermatozoa diagnostic reagent, sperm mitochondrial diagnostic reagent and anti-mullerian hormone with the application of chemiluminescence technology for assessing male fertility and reproduction potential<br>– Purchasing raw materials and equipment for the research and development of these products<br>– Conducting technical review by third party | **[REDACTED]** |
| | • Developing fully automated sperm dyeing detection equipment and semen biochemical immunoassay equipment (精液生化免疫分析儀)<br>– Purchasing raw materials and equipment for the research and development of these products | **[REDACTED]** |
| | • Recruiting five research and development personnel, three technicians and two production workers | **[REDACTED]** |
| | **Improving existing products** | |
| | • Improving male fertility quantitative test kit reagents | **[REDACTED]** |
| | • Recruiting two research and development personnel, two technicians and one production worker | **[REDACTED]** |
| **Expanding our sales network and enhancing our marketing activities** | • Increasing sales to existing customers and developing new customers and expanding our sales network to Northern China | **[REDACTED]** |
| | • Participating in annual conferences of medical device manufacturers in the PRC | **[REDACTED]** |
| | • Participating in academic conferences on male reproduction and andrology | **[REDACTED]** |
| | • Recruiting seven sales and marketing personnel and two technicians | **[REDACTED]** |
| **Working capital** | • General working capital | **[REDACTED]** |
| **Total** | | **[REDACTED]** |

## (c) From 1 July 2019 to 31 December 2019

| Business strategies | Implementation activities | Proceeds |
|---|---|---|
| | | *HK$'000* |
| | **Development of new products** | |
| **Developing new products** | • Developing new IVD reagents for male fertility testing such as, sperm nucleus DNA integrity IVD reagent for flow cytometry technology platform, spermatozoa diagnostic reagent, sperm mitochondrial diagnostic reagent and anti-mullerian hormone with the application of chemiluminescence technology for assessing male fertility and reproduction potential<br>– Purchasing raw materials and equipment for the research and development of these products<br>– Conducting clinical trial and technical review<br>– Making registrations of the newly developed IVD reagents | **[REDACTED]** |
| | • Developing fully automated sperm dyeing detection equipment and semen biochemical immunoassay equipment (精液生化免疫分析儀)<br>– Making registrations of the newly development of the equipment<br>– Purchasing raw materials and equipment for the research and development of these products<br>– Conducting clinical trial and technical review | **[REDACTED]** |
| | • Salaries for the five research and development personnel, three technicians and two production workers recruited during the first half of 2019 | **[REDACTED]** |
| **Expanding our sales network and enhancing our marketing activities** | • Increasing sales to existing customers and developing new customers | **[REDACTED]** |
| | • Expanding our sales volume in Northern China | |
| | • Salaries for the seven sales and marketing personnel and two technicians recruited during the first half of 2019 | **[REDACTED]** |
| | • Participating in academic conferences on male reproduction and andrology | **[REDACTED]** |
| **Developing auxiliary reproductive supply business** | • Developing business relating to auxiliary reproductive supplies (mainly including sperm washing medium, centrifugation and cryopreservation medium and micromanipulator medium)<br>– Purchasing raw materials and equipment for the research and development of these products<br>– Product design and development<br>– Making registrations of the newly developed auxiliary reproductive supplies and equipment | **[REDACTED]** |
| | • Constructing the production facilities of auxiliary reproductive supplies (mainly including sperm washing medium and micromanipulator medium) | **[REDACTED]** |
| | • Recruiting five sales and marketing personnel | **[REDACTED]** |
| **Working capital** | • General working capital | **[REDACTED]** |
| **Total** | | **[REDACTED]** |

## (d) From 1 January 2020 to 30 June 2020

| Business strategies | Implementation activities | Proceeds |
|---|---|---|
| | | *HK$'000* |
| | **Development of new products** | |
| **Developing new products, improving our existing products** | • Developing new IVD reagents for male fertility testing such as, sperm nucleus DNA integrity IVD reagent for flow cytometry technology platform, spermatozoa diagnostic reagent, sperm mitochondrial diagnostic reagent and anti-mullerian hormone with the application of chemiluminescence technology for assessing male fertility and reproduction potential<br>– Purchasing raw materials and equipment for the research and development of these products<br>– Conducting clinical trial and technical review | **[REDACTED]** |
| | • Developing fully automated sperm dyeing detection equipment and server biochemical immunoassay equipment (精液生化免疫分析儀)<br>– Making registrations of the newly developed equipment<br>– Conducting clinical trial and technical review | **[REDACTED]** |
| | • Salaries for the five research and development personnel, three technicians and two production workers recruited during the first half of 2019 | **[REDACTED]** |
| | **Improving existing products** | |
| | • Training research and development personnel | **[REDACTED]** |
| | • Improving product quality to conform to the Conformité Européenne certification requirements | **[REDACTED]** |
| | • Applying for registration of ISO13485 certification | **[REDACTED]** |
| | • Recruiting three quality assurance personnel | **[REDACTED]** |
| **Enhancing sales and marketing activities** | • Participating in annual conferences of medical device manufacturers in the PRC | **[REDACTED]** |
| | • Participating in academic conferences on male reproduction and andrology | **[REDACTED]** |
| | • Salaries for the one sales and marketing personnel and the two technicians recruited during the first half of 2019 | **[REDACTED]** |
| **Developing auxiliary reproductive supply business** | • Developing business relating to auxiliary reproductive supplies (mainly including sperm washing medium, centrifugation and cryopreservation medium and micromanipulator medium)<br>– Purchasing raw materials and equipment for the research and development of these products<br>– Product design and development<br>– Making registrations of the newly developed auxiliary reproductive supplies and equipment | **[REDACTED]** |
| | • Constructing the production facilities of auxiliary reproductive supplies (mainly including sperm washing medium and micromanipulator medium) | **[REDACTED]** |
| | • Salaries for the five sales and marketing personnel recruited during the second half of 2019 | **[REDACTED]** |
| | • Setting up sales branches in Guangdong and Hunan provinces as well as Guangxi autonomous region | **[REDACTED]** |
| **Working capital** | • General working capital | **[REDACTED]** |
| **Total** | | **[REDACTED]** |

## (e) From 1 July 2020 to 31 December 2020

| Business strategies | Implementation activities | Proceeds |
|---|---|---|
| | | *HK$'000* |
| | **Development of new products** | |
| **Developing new products, improving our existing products and carrying out international cooperation projects** | • Developing new IVD reagents for male fertility testing such as, sperm nucleus DNA integrity IVD reagent for flow cytometry technology platform, spermatozoa diagnostic reagent, sperm mitochondrial diagnostic reagent and anti-mullerian hormone with the application of chemiluminescence technology for assessing male fertility and reproduction capacity<br>– Conducting clinical trial and technical review<br>– Making registrations of the newly developed IVD reagents | **[REDACTED]** |
| | • Developing fully automated sperm dyeing detection equipment and server biochemical immunoassay equipment (精液生化免疫分析儀)<br>– Conducting clinical trial and technical review<br>– Making registrations of the newly developed equipment | **[REDACTED]** |
| | • Salaries for the five research and development personnel, three technicians and two production workers recruited during the first half of 2019 | **[REDACTED]** |
| | **Improving existing products** | |
| | • Improving our product quality and applying for registration of Conformité Européenne certification for our male fertility IVD reagents | **[REDACTED]** |
| | • Salaries for the three quality assurance personnel recruited during the first half of 2020 | **[REDACTED]** |
| | **International cooperation projects** | |
| | • Recruiting one project management personnel to source international cooperation projects and introduce foreign partners and their brands and products | **[REDACTED]** |
| **Expanding our sales network and enhancing our marketing activities** | • Participating in annual conferences of medical device manufacturers in the PRC | **[REDACTED]** |
| | • Participating in academic conferences on male reproduction and andrology | **[REDACTED]** |
| | • Salaries for the one sales and marketing personnel and the two technicians recruited during the first half of 2019. | **[REDACTED]** |
| **Developing auxiliary reproductive supplies business** | • Constructing the production facilities of auxiliary reproductive supplies (mainly including sperm washing medium and micromanipulator medium) and expanding our product lines | **[REDACTED]** |
| | • Recruiting four research and development personnel, six production technicians and two production workers | **[REDACTED]** |
| | • Salaries for the five sales and marketing personnel recruited during the second half of 2019 | **[REDACTED]** |
| **Working capital** | • General working capital | **[REDACTED]** |
| **Total** | | **[REDACTED]** |

The table below summaries the number and types of staff we plan to recruit using our net proceeds from the **[REDACTED]** during the respective period from the **[REDACTED]** to 31 December 2020:

| Department | From the [REDACTED] to 31 December 2018 | From 1 January 2019 to 30 June 2019 | From 1 July 2019 to 31 December 2019 | From 1 January 2020 to 30 June 2020 | From 1 July 2020 to 31 December 2020 |
|---|---|---|---|---|---|
| Sales and marketing | – | 9 | 5 | – | – |
| Quality assurance | – | – | – | 3 | – |
| Research and development | – | 7 | – | – | 4 |
| Production | – | 8 | – | – | 8 |
| Project management | – | – | – | – | 1 |
| **Total** | **–** | **24** | **5** | **3** | **13** |

## BASES AND ASSUMPTIONS

- Our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which our future plans relate.
- There will be no material change in the funding requirement for each of our Group's future plans described in this document from the amount as estimated by our Directors.
- There will be no material change in existing laws and regulations, or other governmental policies relating to our Group, or in the political, economic or market conditions in which our Group operates.
- There will be no change in the effectiveness of the licences, permits and qualifications obtained by our Group.
- There will be no material change in the bases or rates of taxation applicable to the activities of our Group.
- Our Group will be able to retain our customers and suppliers.
- Our Group will be able to retain key staff in the management and the main operational departments.
- There will be no disasters, natural, political or otherwise, which would materially disrupt the businesses or operations of our Group.
- Our Group will not be materially affected by the risk factors as set out under the section headed "Risk Factors" of this document.

## REASONS FOR [REDACTED] IN HONG KONG

Our Directors believe that the **[REDACTED]** of the Shares on GEM will facilitate the implementation of our business strategies. The net proceeds of the **[REDACTED]** will provide financial resources to our Group to achieve our business strategies which will further strengthen our market position and expand our market share. Please refer to the subsection headed "Business – Our Strategies" in this document for further details. The total expenditure for the implementation of our strategies is estimated to be approximately RMB22.6 million, among which approximately RMB**[REDACTED]** is expected to be financed by the net proceeds from the **[REDACTED]** during the period from the Latest Practicable Date and up to 31 December 2020, and approximately RMB4.7 million is expected to be financed by the internal financial resources of the Group.

Our Directors consider that the net proceeds from the **[REDACTED]** are important for the implementation of our business strategies within a shorter period of time as compared to solely relying on our cash flow from operations. In addition, as at 30 September 2018, being the latest practicable date for determining our Group's indebtedness, our Group's cash and cash equivalent was approximately RMB17.1 million. Our Directors consider it necessary to maintain such a cash level to support our Group's existing operations and growth after taking into account (i) the need to settle the outstanding liabilities of our Group as at 30 September 2018, being the latest practicable date for determining our Group's indebtedness; and (ii) the prudent financial management approach of our Group to maintain a cash balance for paying the estimated operating expenses of approximately three months in view of the nature of our business including the longer account receivables turnover days as compared with the account payables days.

In addition, our Directors believe that the **[REDACTED]** of our Company is to gain access to the capital market for future growth with opportunities to raise funds not only at **[REDACTED]** but also at a later stage. Assuming an **[REDACTED]** of HK$**[REDACTED]** per **[REDACTED]**, being the mid-point of the indicative **[REDACTED]** of HK$**[REDACTED]** to HK$**[REDACTED]** per **[REDACTED]**, the gross proceeds for the **[REDACTED]** are estimated to be approximately HK$**[REDACTED]**, and the net proceeds from the **[REDACTED]** are estimated to be approximately HK$**[REDACTED]**, after deducting **[REDACTED]** and other estimated expenses paid or payable by us in connection with the **[REDACTED]**.

Our Directors believe that the **[REDACTED]** would be instrumental in enabling us to achieve our business strategies and provide us with the following benefits:

### Broader Access to Capital for Future Growth

The **[REDACTED]** can provide access for our Company to raise fund not only initially from the **[REDACTED]** but also potentially through future issuances of equity or debt securities after the **[REDACTED]**. As disclosed in the subsection headed "Business — Our Strategies" in this document, we intend to expand our product portfolio and improve our existing product offerings, strengthen our product research and development capabilities, expand and consolidate our sales and distribution network and develop auxiliary reproductive supply business, and all of the above expansion plans require significant capital investment and resources.

Our management estimates that the average level of monthly cash outflow for our Group's daily operations is approximately RMB1.3 million, which mainly include research and development expenses, staff costs, travelling expenses, procurement of raw materials, advertising and promotion fees, and rental payments. Although we currently have sufficient internal cash inflow to maintain our Group's daily

operations, it would be difficult for us to utilise our existing cash inflow generated from product sales to fund any further expansion plan without exploring alternative financing sources. Our Directors are of the view that since it may take an extended period of time to generate additional cash internally and additional operational cost may be generated from the expansion plan, the flexibility of being able to use a wider range of financing sources after the **[REDACTED]** will benefit our Group and therefore will enable us to implement any future expansion plans more readily and in a timely manner.

The **[REDACTED]** can provide us with external financial resources from the **[REDACTED]**, as well as broaden our shareholder base. The **[REDACTED]** can also provide us with the flexibility to adjust our capital structure from time to time, through accessing a wider spectrum of fund raising venue, including debt and equity raising, and negotiating and obtaining more favorable terms of financing from financial institutions as and when considered appropriate, which in turn will enable us to implement any future expansion plans and better withstand unexpected external impacts and market fluctuations.

**Enhance our Corporate Profile, Brand Recognition and Market Position**

The PRC male fertility IVD reagent market is competitive. Since most of our direct sales customers are public hospitals which require us to obtain customer contracts through public tendering, our reputation and corporate profile are very important as they are often one of the important selection criteria for our existing or potential customers. We believe that the **[REDACTED]** can enhance our corporate profile, brand recognition and market position, which would enhance our qualifications as bidder, strengthen our capacity to develop and secure more customers, as well as provide greater confidence to our customers and suppliers, thereby enhancing our competitiveness within this industry. The enhanced corporate profile can also potentially lead to more business opportunities for our Group, as our Company will be more visible and approachable to potential customers. This is of significant importance since we intend to expand our sales network and geographical presence in China and an enhanced corporate profile can facilitate our establishment in new regions and exploration of potential customers.

**Expand Customer Base with a Wider Geographic Coverage and Increase our Competitiveness**

According to the CIC Report, the PRC male fertility IVD reagent market is highly concentrated and therefore it is essential for us to maintain our competitiveness by developing a boarder customer base with a wider geographic coverage and better corporate governance. With broader access to financial resources and enhanced corporate profile and brand recognition upon **[REDACTED]**, our customer base is expected to further expand with a wider geographic coverage, as new customers are more inclined to transact with a **[REDACTED]** company with enhanced credibility and better business reputation which are associated with the public financial disclosures and regulatory compliance of a **[REDACTED]** company. In addition, as a **[REDACTED]** company, we will strive to maintain the high standards of corporate governance and we believe this can give better assurance to our shareholders and confidence to our customers which in turn will enhance our competitiveness and enable us to attract more business opportunities and potential customers to further expand our existing customer base.

**Finance our Development of New Products and Improvement of Existing Products**

We plan to continuously expand our portfolio of IVD reagents through market-driven product development approach and improve our existing products to meet the demands of our customers and end users. We intend to utilize HK$**[REDACTED]** in aggregate of our net proceeds from the **[REDACTED]** in new product development and existing product modification, which include developing new IVD reagents and improving existing products for male fertility testing. Please refer to the paragraph headed – "Implementation Plans" in this section for details. Our Directors are of the view, and the PRC Legal Advisers confirmed, save as the relevant medical device registration for the respective new products, we are only required to file with the relevant authorities in respect of the production of new products but no additional licence is required for the development of new IVD reagents under the PRC laws and regulations.

At present, two of our new male fertility IVD reagents, namely, spermatozoa diagnostic reagent, and sperm nucleus DNA integrity IVD reagent for flow cytometry technology platform, have gone through ethical review conducted by a third party and are about to enter clinical trials while the sperm mitochondrial diagnostic reagent is at research stage. Our fully automated sperm dyeing detection equipment is about to enter the phase of sample evaluation for further modification or fine-tune of the sample product and anti-mullerian hormone with the application of chemiluminescence technology being at research stage. Further, we are in the initial stage of selecting an equipment manufacturer to produce our semen biochemical immunoassay equipment. Our Directors consider that our Group needs additional funds to finance our new product development and existing product enhancement while maintaining sufficient working capital for our Group's operations.

**Stronger Ability to Attract Talent and Retain Existing Staff**

We have placed great emphasis on product research and development, and high quality talents are important to our business operations and future development. As disclosed in the subsection headed "Business — Business Strategies" in this document, we intend to strengthen our product research and development capabilities and expand our sales and marketing team and therefore we need to attract and recruit many talents in the near future. We believe that the **[REDACTED]** will enable us to reach out to a broader talent pool and provide us with more means for recruitment and retention of employees, such as providing them more reputed employment environment, offering them more career advancement opportunities and granting them with share options.

Although the expenses in relation to the **[REDACTED]** represent a significant proportion of the gross proceeds from the **[REDACTED]**, such expenses are non-recurring by nature. For the reasons stated above, our Directors believe that the **[REDACTED]** is beneficial to us in the long run.

Furthermore, our Directors believe that it is in the best interest of our Company to conduct equity financing by way of the **[REDACTED]** instead of debt financing. This is primarily because:

(i) our Group does not have any significant amount of fixed assets which can be pledged as collateral to secure bank borrowing and finance the implementation of our future plan. Our property, plant and equipment comprised mainly (i) leasehold improvement, and (ii) plant and machinery during the Track Record Period and up to the Latest Practicable Date. Other categories under our property, plant and equipment were in insignificant amounts. The

leasehold improvement is one-off capital expenditure and such improvements are affixed to the construction itself. The plant and machinery comprised mostly medical equipment and instruments, such as the low temperature surgical system and flow cytometric analyser. Our Directors are of the view that while the leasehold improvement cannot serve as collateral for borrowing purpose, it would also be highly uncertain whether the medical equipment and instruments will be accepted as collaterals to secure bank borrowings. Even if such medical equipment and instruments are accepted, it is anticipated that the loan amount can be obtained would be insignificant as compared with the net **[REDACTED]** of the **[REDACTED]**. Hence, our Directors consider that pledging our plant and machinery to obtain bank borrowing would not be an efficient way to raise funds to implement our business strategies.

(ii) our Directors consider that it would not be in the best interest of our Group to rely on debt financing that may involve personal guarantee or collateral provided by the Controlling Shareholders and their associates for the following reasons:

– It is our strategy to minimise connected transactions and related party transactions in order to carry out our business independently from our Controlling Shareholders, Directors and their associates;

– Continuous reliance on our Controlling Shareholders, Directors and their associates for provision of personal guarantee and other form of financial assistance is a hindrance to our Group in achieving financial independence.

(iii) as at 31 December 2017, our Group had a low gearing ratio of approximately 0.3%. Our Directors genuinely believe that it is necessary to (i) maintain a disciplined and prudent financial strategy without exposing our Group to aggressive gearing in order to achieve sustainable growth in the long run; and (ii) maintain an overall capital structure and a cash level which are sufficient to support our Group's ongoing business needs.

(iv) our Directors considered that as part of the group of private companies, it would be difficult for our Company, without a **[REDACTED]** status, to obtain bank borrowings at a more commercially favourable term. Our Directors believe that debt financing will subject our Group to interest rate risks and certain unfavourable borrowing terms such as the provision of collateral and fees for debt financing and early repayment, as opposed to equity financing which is free from such interest rate risks and unfavourable borrowing terms; and

(v) given that (i) the uncertain interest rate movement going forward may expose our Group to increasing borrowing costs in the future via debt financing, and (ii) borrowing rate in the PRC is relatively high that our unsecured bank borrowing was interest bearing with fixed rate of 9.5% per annum during the Track Record Period, our Directors believe that our Group's financial performance and liquidity would be negatively affected due to the principal and interest repayments of bank borrowing, if our Group proceeds with debt financing to fund our business expansion.

As such, our Directors consider that it is in the best interest of our Group to proceed with the equity financing by way of the **[REDACTED]** for the purpose of our business expansion as opposed to a debt financing in the long run.

**[REDACTED]**

| | From the [REDACTED] to 31 December 2018 | From 1 January 2019 to 30 June 2019 | From 1 July 2019 to 31 December 2019 | From 1 January 2020 to 30 June 2020 | From 1 July 2020 to 31 December 2020 | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Developing new products, improving our existing products and carrying out international cooperation projects | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| Expanding our sales network and enhancing our marketing activities | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| Developing auxiliary reproductive supply business | – | – | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| Working capital | – | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

We intend to use the net proceeds of the **[REDACTED]** for the following purposes:

- of **[REDACTED]**% of the net proceeds, or HK$**[REDACTED]**, will be used for developing new products, improving our existing products and carrying out international cooperation projects;

- of **[REDACTED]**% of the net proceeds, or HK$**[REDACTED]**, will be used for expanding our sales network and enhancing our sales and marketing activities;

- of **[REDACTED]**% of the net proceeds, or HK$**[REDACTED]**, will be used for developing our auxiliary reproductive supply business. As our customers and end users of our male fertility IVD reagents also requires auxiliary reproductive supplies and equipments for conducting infertility diagnosis process, our current sales and distribution network with a broad geographical reach in China and our strong customer base will also smooth our way for marketing and launching our auxiliary reproductive supplies and equipment in this market. Therefore, although our auxiliary reproductive supply business accounted for a relatively small portion of our Group's total revenue during the Track Record Period, we intend to leverage on our existing customer base which demand more auxiliary reproductive supplies and equipment to facilitate the use of

our IVD reagents. The current end users for our male fertility IVD reagents are the reproductive centres and andrology centres of hospitals and medical institutions which may also be the end users for our auxiliary reproductive supplies and equipment. We can make use of our good and stable business relationships with our existing customers and end users to develop our auxiliary reproductive supply business, and seize on business opportunities arising from the implementation of favourable government policies in relation to domestically manufactured medical devices. In 2017, the PRC government promulgated a series of policies and implemented relevant measures for the development of domestically manufactured medical devices. The PRC government introduced measures to promote and incentivise the development of domestic medical equipment, such as upgrading the relevant standards in favor of domestic medical devices and requiring 30% of the hospitals to procure domestic medical devices. Such polices are expected to increase the demand for domestic medical devices which may lead to increasing sales of our auxiliary reproductive supplies. Further, the universal two-child policy has been implemented since January 2016. Our Directors believe that the increasing demands for bearing a second child from mid-aged couples who are more likely to encounter infertility problems will not only boost the demand for our male fertility IVD reagents, but also that for our auxiliary reproductive supply business. During the Track Record Period, a majority of our auxiliary reproductive supplies and equipment were sold through direct sales and the rest of such products were sold through distributors, and the relevant customers are in the same locations as our customers of male fertility IVD reagents. We will continue to monitor and analyse the market demand and outlook of the PRC auxiliary reproductive supply market. In any event that our Group does not set up production lines due to low receptiveness of the auxiliary reproductive supplies and equipment, we then will allocate the respective net proceeds to developing our product pipeline of male fertility IVD reagents. Our Directors believe that there will not be any material impact on our business plans; and

- of **[REDACTED]**% of the net proceeds, or HK$**[REDACTED]**, will be used for funding working capital.

If the **[REDACTED]** is finally determined to be more than HK$**[REDACTED]** per **[REDACTED]**, being the mid-point of the indicative range of the **[REDACTED]**, the above proposed allocation of net proceeds will increase on a *pro rata* basis. If the **[REDACTED]** is less than the mid-point of the indicative range of the **[REDACTED]**, the above allocation of the net proceeds will decrease on a *pro rata* basis and we plan to finance such shortfall by internal generated financial resources and/or other financing, as and when appropriate.

To the extent that the net proceeds are not immediately applied to the above purpose and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments. Should our Directors decide to re-allocate the intended **[REDACTED]** to other business plans to a material extent and/or there is to be any material modification to the **[REDACTED]** as described above, our Company will make an announcement in accordance with the GEM Listing Rules.

Primarily because (i) our Directors consider it necessary to maintain a cash level to support our Group's existing operations and growth through continuing organic expansion; and (ii) given that the difficulties for our Group to independently secure bank borrowings, our Directors consider that the net proceeds from the **[REDACTED]** are important to finance our implementation plan. As such, in the event if the

# FUTURE PLANS AND [REDACTED]

**[REDACTED]** cannot be completed as scheduled, or at all, we may explore a combination of various interim measures, which may include: (i) prioritising and focusing on some of our business strategies, among others, developing new products, which will be financed by our internal financial resources; and/or (ii) postponing the schedule of implementing other business strategies.

**[REDACTED]**

**[REDACTED]**

**[REDACTED]**

**[REDACTED]**

**[REDACTED]**

**[REDACTED]**

**[REDACTED]**

**[REDACTED]**

**[REDACTED]**

**[REDACTED]**

**[REDACTED]**

**[REDACTED]**

**[REDACTED]**

**[REDACTED]**

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# HOW TO APPLY FOR [REDACTED]

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**[REDACTED]**

# HOW TO APPLY FOR [REDACTED]

**[REDACTED]**

# HOW TO APPLY FOR [REDACTED]

**[REDACTED]**

*The following is the text of a report set out on pages I-1 to I-55 received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong for the purpose of incorporation in this document.*

Deloitte. 德勤

**ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF HUAKANG BIOMEDICAL HOLDINGS COMPANY LIMITED AND RHB CAPITAL HONG KONG LIMITED**

**Introduction**

We report on the historical financial information of Huakang Biomedical Holdings Company Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages I-4 to I-55, which comprises the consolidated statements of financial position as at 31 December 2015, 2016 and 2017 and 31 May 2018, the statements of financial position of the Company as at 31 December 2017 and 31 May 2018, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the three years ended 31 December 2017 and the five months ended 31 May 2018 (the "**Track Record Period**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages I-4 to I-55 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated **[REDACTED]** (the "**Document**") in connection with the initial **[REDACTED]** of shares of the Company on GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

**Directors' responsibility for the Historical Financial Information**

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation as set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial

Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at 31 December 2015, 2016 and 2017 and 31 May 2018 and the Company's financial position as at 31 December 2017 and 31 May 2018 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation as set out in Note 2 to the Historical Financial Information.

**Review of stub period comparative financial information**

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the five months ended 31 May 2017 and other explanatory information (the "**Stub Period Comparative Financial Information**"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on GEM of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

***Adjustments***

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

***Dividends***

We refer to Note 14 to the Historical Financial Information which stated that no dividends have been paid or declared by the Company's subsidiaries in respect of the Track Record Period and stated that no dividends have been paid by the Group since its incorporation.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
**[REDACTED]**

## HISTORICAL FINANCIAL INFORMATION OF THE GROUP

### Preparation of Historical Financial Information of the Group

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, are prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | | Year ended 31 December | | | Five months ended 31 May | |
|---|---|---|---|---|---|---|
| | | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *NOTES* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Revenue | *6* | 19,456 | 25,410 | 26,541 | 9,606 | 11,012 |
| Cost of sales | | (5,088) | (7,788) | (8,007) | (2,895) | (2,841) |
| Gross profit | | 14,368 | 17,622 | 18,534 | 6,711 | 8,171 |
| Other income | *7* | 2,151 | 313 | 703 | 73 | 72 |
| Other gains and losses | *8* | (89) | (1,453) | 157 | (133) | 63 |
| Selling and distribution expenses | | (2,734) | (2,910) | (2,860) | (1,131) | (1,297) |
| Administrative expenses | | (1,565) | (2,290) | (3,244) | (880) | (1,776) |
| Research and development expenses | | (1,644) | (1,210) | (1,374) | (476) | (557) |
| Finance costs | *9* | (1,284) | (128) | (54) | (34) | – |
| **[REDACTED]** | | – | – | **[REDACTED]** | – | **[REDACTED]** |
| Profit (loss) before tax | | 9,203 | 9,944 | (247) | 4,130 | 2,198 |
| Income tax expense | *10* | (1,269) | (1,518) | (1,705) | (595) | (728) |
| Profit (loss) and total comprehensive income (expense) for the year/period attributable to the owners of the Company | *11* | 7,934 | 8,426 | (1,952) | 3,535 | 1,470 |
| Earnings (loss) per share | | | | | | |
| Basic (RMB cents) | *15* | 3.31 | 3.51 | (0.75) | 1.47 | 0.49 |

## STATEMENTS OF FINANCIAL POSITION

| | | The Group | | | | The Company | |
|---|---|---|---|---|---|---|---|
| | | As at 31 December | | | As at 31 May | As at 31 December | As at 31 May |
| | | 2015 | 2016 | 2017 | 2018 | 2017 | 2018 |
| | *NOTES* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Non-current assets | | | | | | | |
| Property, plant and equipment | *16* | 4,622 | 4,737 | 9,574 | 9,417 | – | – |
| Intangible assets | *17* | 1,539 | 1,752 | 2,189 | 2,713 | – | – |
| Loan to Shenzhen Junxuan (as defined in Note 2) | *25* | 950 | 350 | – | – | – | – |
| Deposits for acquisition of property, plant and equipment | | 756 | 827 | 744 | 1,453 | – | – |
| Investment in a subsidiary | *35* | – | – | – | – | – | – |
| | | 7,867 | 7,666 | 12,507 | 13,583 | – | – |
| Current assets | | | | | | | |
| Inventories | *18* | 2,381 | 2,408 | 1,945 | 1,851 | – | – |
| Trade receivables | *19* | 7,368 | 9,414 | 9,848 | 11,388 | – | – |
| Other receivables, deposits and prepayments | *20* | 2,906 | 1,446 | 4,311 | 5,109 | 3,542 | 4,103 |
| Amount due from a director | *21* | 273 | – | – | – | – | – |
| Loan to Shenzhen Junxuan | *25* | 600 | 600 | – | – | – | – |
| Amount due from a subsidiary | *25* | – | – | – | – | 5,553 | 4,110 |
| Bank balances and cash | *22* | 6,093 | 15,914 | 19,811 | 17,814 | – | – |
| | | 19,621 | 29,782 | 35,915 | 36,162 | 9,095 | 8,213 |
| Current liabilities | | | | | | | |
| Trade payables | *23* | 706 | 1,193 | 866 | 877 | – | – |
| Other payables and accrued charges | *24* | 2,058 | 2,424 | 7,942 | 8,904 | 4,337 | 6,467 |
| Amount due to Shenzhen Junxuan | *25* | 5,299 | 6,157 | 110 | – | – | – |
| Bank borrowing | *26* | 600 | 600 | – | – | – | – |
| Contract liabilities | *27* | 552 | 199 | 194 | 178 | – | – |
| Tax payable | | 1,248 | 2,059 | 1,700 | 725 | – | – |
| | | 10,463 | 12,632 | 10,812 | 10,684 | 4,337 | 6,467 |
| Net current assets | | 9,158 | 17,150 | 25,103 | 25,478 | 4,758 | 1,746 |
| Total assets less current liabilities | | 17,025 | 24,816 | 37,610 | 39,061 | 4,758 | 1,746 |
| Non-current liabilities | | | | | | | |
| Bank borrowing | *26* | 950 | 350 | – | – | – | – |
| Deferred income – government grants | *28* | 300 | 265 | 220 | 201 | – | – |
| | | 1,250 | 615 | 220 | 201 | – | – |
| Net assets | | 15,775 | 24,201 | 37,390 | 38,860 | 4,758 | 1,746 |
| Capital and reserves | | | | | | | |
| Combined capital/share capital | *29* | 3,469 | 3,469 | – | – | – | – |
| Reserves | *36* | 12,306 | 20,732 | 37,390 | 38,860 | 4,758 | 1,746 |
| Total equity | | 15,775 | 24,201 | 37,390 | 38,860 | 4,758 | 1,746 |

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Combined capital/share capital *RMB'000* | Share premium *RMB'000* | Capital reserve *RMB'000* *(Note (i))* | Statutory reserve *RMB'000* *(Note (ii))* | Accumulated profits *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|
| At 1 January 2015 | 3,469 | – | – | 1,251 | 3,121 | 7,841 |
| Profit and total comprehensive income for the year | – | – | – | – | 7,934 | 7,934 |
| Transfer to statutory reserve | – | – | – | 483 | (483) | – |
| At 31 December 2015 | 3,469 | – | – | 1,734 | 10,572 | 15,775 |
| Profit and total comprehensive income for the year | – | – | – | – | 8,426 | 8,426 |
| At 31 December 2016 | 3,469 | – | – | 1,734 | 18,998 | 24,201 |
| Loss and total comprehensive expense for the year | – | – | – | – | (1,952) | (1,952) |
| Issue of shares by the Company on 3 August 2017 (date of incorporation of the Company) *(Note 2(i))* | – | – | – | – | – | – |
| Share allotment by the Company *(Notes 2(i) and (iii))* | – | 16,667 | – | – | – | 16,667 |
| Arising from the Group Reorganisation *(as defined in Note 2) (Notes 2(iv) and (v))* | (3,469) | - | 1,943 | - | - | (1,526) |
| At 31 December 2017 | – | 16,667 | 1,943 | 1,734 | 17,046 | 37,390 |
| Profit and total comprehensive income for the period | – | – | – | – | 1,470 | 1,470 |
| At 31 May 2018 | – | 16,667 | 1,943 | 1,734 | 18,516 | 38,860 |
| *For the five months ended 31 May 2017 (unaudited)* | | | | | | |
| At 1 January 2017 | 3,469 | – | – | 1,734 | 18,998 | 24,201 |
| Profit and total comprehensive income for the period (unaudited) | – | – | – | – | 3,535 | 3,535 |
| At 31 May 2017 (unaudited) | 3,469 | – | – | 1,734 | 22,533 | 27,736 |

*Notes:*

(i) Capital reserve represents the difference between the combined capital of King Grace Company Limited ("**King Grace**") and 深圳華康生物醫學工程有限公司 (Shenzhen Huakang Bio-Medical Engineering Limited*) ("**Shenzhen Huakang**") and the consideration paid for acquiring 44% equity interest of Shenzhen Huakang by King Grace.

(ii) Statutory reserve is required to be appropriated from profit after income tax of the entity which established in the People's Republic of China (the "**PRC**"), determined in accordance with the relevant laws and regulations in the PRC. Allocation to the statutory reserve shall be approved by the board of directors of the entity. The appropriation to statutory reserve may cease if the balance of the statutory reserve has reached 50% of the registered capital of the entity. The statutory reserve may be used to make up losses or for conversion into capital. The relevant entity may, upon the approval by a resolution of shareholders' general meeting/board of directors' meeting, convert the statutory reserve into capital in proportion to the then existing shareholdings. However, when converting the statutory reserve into capital, the balance of such reserve remaining unconverted must not be less than 25% of the registered capital of the relevant entity.

* *The English name is for identification purpose*

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended 31 December | | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (unaudited) | |
| OPERATING ACTIVITIES | | | | | |
| Profit (loss) before tax | 9,203 | 9,944 | (247) | 4,130 | 2,198 |
| Adjustments for: | | | | | |
| Amortisation of intangible assets | 33 | 302 | 351 | 146 | 146 |
| Depreciation of property, plant and equipment | 478 | 606 | 1,071 | 354 | 532 |
| Interest income | (1,290) | (159) | (143) | (52) | (19) |
| Allowance for (reversal of allowance for) doubtful debts on trade and other receivables, net | 17 | 159 | 126 | 126 | (129) |
| Loss on disposal and written off of property, plant and equipment | – | 1,294 | – | – | – |
| Government grants | (861) | (35) | (45) | (19) | (19) |
| Interest on bank borrowings | 1,278 | 123 | 54 | 34 | – |
| Operating cash flows before movements in working capital | 8,858 | 12,234 | 1,167 | 4,719 | 2,709 |
| (Increase) decrease in inventories | (329) | (27) | 463 | (255) | 94 |
| Increase in trade receivables | (2,252) | (2,161) | (856) | (701) | (1,420) |
| (Increase) decrease in other receivables, deposits and prepayments | (687) | 1,416 | 973 | (164) | (84) |
| (Decrease) increase in trade payables | (69) | 487 | (327) | (461) | 11 |
| Increase (decrease) in other payables and accrued charges | 431 | 366 | 3,348 | (698) | 466 |
| Decrease in contract liabilities | (4) | (353) | (5) | (45) | (16) |
| Cash generated from operations | 5,948 | 11,962 | 4,763 | 2,395 | 1,760 |
| PRC enterprise income tax paid | (493) | (707) | (2,064) | (1,817) | (1,703) |
| NET CASH FROM OPERATING ACTIVITIES | 5,455 | 11,255 | 2,699 | 578 | 57 |

| | Year ended 31 December | | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| INVESTING ACTIVITIES | | | | | |
| Loans to Shenzhen Junxuan | (17,000) | – | – | – | – |
| Acquisitions of property, plant and equipment | (2,613) | (2,057) | (4,154) | (3,124) | (15) |
| Development costs paid | (975) | (515) | (788) | (176) | (670) |
| Deposits paid for acquisitions of property, plant and equipment | (756) | (71) | (531) | (127) | (1,069) |
| Advance to a director | (100) | – | – | – | – |
| Repayment from a director | – | 273 | – | – | – |
| Repayment from Shenzhen Junxuan | 26,100 | 600 | 950 | 950 | – |
| Interest received | 1,290 | 159 | 143 | 52 | 19 |
| Government grants received | 300 | – | – | – | – |
| Proceeds from disposal of property, plant and equipment | – | 42 | – | – | – |
| NET CASH FROM (USED IN) INVESTING ACTIVITIES | 6,246 | (1,569) | (4,380) | (2,425) | (1,735) |
| FINANCING ACTIVITIES | | | | | |
| New bank borrowings raised | 17,000 | – | – | – | – |
| Proceeds from issue and allotment of shares | – | – | 16,667 | – | – |
| Advance from a shareholder | – | – | 5,378 | – | – |
| Advance from a director | – | – | 5 | – | – |
| Advance from Shenzhen Junxuan | 1,535 | 4,461 | – | – | – |
| Government grants received | 480 | – | – | – | – |
| Repayment to a director | – | – | (5) | – | – |
| Interest paid on bank borrowings | (1,278) | (123) | (54) | (34) | – |
| Deemed distribution arising from Group Reorganisation *(as defined in Note 2)* | – | – | (1,526) | – | – |
| Repayment of bank borrowings | (26,100) | (600) | (950) | (250) | – |
| Deferred issued costs of new shares | – | – | (2,512) | – | (209) |
| Repayment to a shareholder | – | – | (5,378) | – | – |
| Repayment to Shenzhen Junxuan | (768) | (3,603) | (6,047) | (2,070) | (110) |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | (9,131) | 135 | 5,578 | (2,354) | (319) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 2,570 | 9,821 | 3,897 | (4,201) | (1,997) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/ PERIOD | 3,523 | 6,093 | 15,914 | 15,914 | 19,811 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD, represented by bank balances and cash | 6,093 | 15,914 | 19,811 | 11,713 | 17,814 |

## NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company under the laws of the Cayman Islands with limited liability on 3 August 2017. The Company is controlled by Mr. Zhang Shuguang and Mr. Chang Yim Yang, who act in concert and hold equity interests in the Company indirectly through Crystal Grant Limited ("**Crystal Grant**", wholly owned by Mr. Zhang), a limited liability company incorporated in the British Virgin Islands ("**BVI**") and Ever Charming Inc. ("**Ever Charming**", wholly owned by Mr. Chang), a limited liability company incorporated in the BVI, respectively.

The addresses of the registered office and principal place of business of the Company are set out in the section headed "Corporate Information" to the Document. The Group is principally engaged in research and development, manufacture, marketing and sale of in-vitro diagnostic ("**IVD**") reagents and auxiliary reproductive supplies and equipment in the People's Republic of China (the "**PRC**") through its subsidiary, 深圳華康生物醫學工程有限公司 (Shenzhen Huakang Bio-Medical Engineering Limited*) ("**Shenzhen Huakang**"), a limited liability company established in the PRC on 26 June 1992.

The Historical Financial Information is presented in RMB, which is the same as the functional currency of the Company and its subsidiaries.

* *The English name is for identification purpose*

### 2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION AND GROUP REORGANISATION

The Historical Financial Information has been prepared based on the accounting policies set out in Note 4 which conform with HKFRSs issued by the HKICPA and the principles of merger accounting under Accounting Guideline 5 "Merger Accounting for Common Control Combinations" ("**AG5**") issued by the HKICPA.

Before the reorganisation as described below, all the companies comprising the Group were controlled by Mr. Zhang Shuguang and Mr. Chang Yim Yang. Mr. Zhang Shuguang and Mr. Chang Yim Yang are brothers and acting in concert and owned the family business through Shenzhen Huakang during the Track Record Period.

In preparation of the **[REDACTED]** of the Company's shares on GEM of the Stock Exchange, the companies comprising the Group underwent the reorganisation as described below:

(i) The Company was incorporated as an exempted company under the laws of the Cayman Islands with limited liability on 3 August 2017. As at the date of incorporation of the Company, its authorised share capital was Hong Kong Dollar ("**HK$**") 380,000 divided into 38,000,000 shares of par value HK$0.01 each, of which one fully paid share was allotted to an independent first subscriber at par and was then transferred to Crystal Grant, a company incorporated under the laws of the BVI with limited liability on 6 July 2017 which is wholly owned by Mr. Zhang Shuguang, at par value. On the same date, the Company further allotted and issued 557 and 442 fully paid shares at par to Crystal Grant and Ever Charming, a company incorporated under the laws of the BVI with limited liability on 6 July 2017 which is wholly owned by Mr. Chang Yim Yang.

On 28 August 2017, the Company further allotted and issued fully paid 5,466 and 3,534 shares to Crystal Grant and Ever Charming at par. Following the above subscriptions and transfer, the Company was owned as to 60.24% and 39.76% by Crystal Grant and Ever Charming, respectively.

(ii) On 4 August 2017, Huakang Biomedical Company Limited ("**Huakang BVI**") was incorporated under the laws of the BVI with limited liability and at the date of incorporation, one fully paid ordinary share was allotted and issued to the Company at par and Huakang BVI became a wholly-owned subsidiary of the Company.

(iii) On 31 August 2017, pursuant to a subscription and shareholders' agreement which was entered into by and among the Company, Gallizul Global Investments Incorporated ("**Gallizul**") which was incorporated under the laws of the BVI with limited liability on 20 June 2017, Hollingberg Limited ("**Hollingberg**") which was incorporated under the laws of the BVI with limited liability on 13 July 2017, Hilland International Limited ("**Hilland**") which was incorporated under the laws of the BVI with limited liability on 7 July 2017, Crystal Grant and Ever Charming, the Company issued 1,500 shares, 500 shares and 500 shares each to Gallizul, Hollingberg and Hilland as fully paid for the cash considerations equivalent of HK$**[REDACTED]**, HK$**[REDACTED]** and HK$**[REDACTED]**, respectively (totally equivalents to approximately RMB**[REDACTED]**). Gallizul, Hollingberg and Hilland are independent to the Group before completion of the subscriptions. After these subscriptions completed on 31 August 2017, the total issued share capital of the Company was increased from 10,000 shares to 12,500 shares.

(iv) On 14 September 2017, Mr. Zhang Shuguang and Mr. Chang Yim Yang transferred their shareholding of 29% and 71% in King Grace Company Limited ("**King Grace**") which was incorporated under the laws of the BVI with limited liability on 22 April 2002, to Huakang BVI at a nominal consideration of United States Dollar ("**US$**") 2.9 and US$7.1, respectively. The share transfer was completed on 14 September 2017 and upon completion of the share transfer, the entire issued share capital of King Grace was owned by Huakang BVI.

(v) On 30 August 2017, 深圳市君軒生物技術有限公司 Shenzhen Junxuan Biological Technology Co., Ltd.* ("**Shenzhen Junxuan**"), a related company not forming part of the Group which established in the PRC on 29 August 1997 and controlled by Mr. Zhang Shuguang, and King Grace entered into an equity transfer agreement pursuant to which Shenzhen Junxuan agreed to transfer its controlling equity interest of 44% in Shenzhen Huakang to King Grace for a consideration of US$220,000 (equivalents to approximately RMB1,526,000) with reference to the paid-up capital of Shenzhen Huakang at that time and the equity transfer was completed on 20 September 2017. Together with previously held 56% equity interest in Shenzhen Huakang owned by King Grace, upon completion of the equity transfer, the entire equity interest of Shenzhen Huakang was owned by King Grace.

Upon completion of the above transactions (collectively referred as "**Group Reorganisation**"), Shenzhen Huakang became an indirectly wholly-owned subsidiary of the Company on 20 September 2017. The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended 31 December 2015, 2016 and 2017 include the results, changes in equity and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation, where there is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2015 and 2016 have been prepared to present the assets and liabilities of the companies now comprising the Group, as if the current group structure has been in existence at those dates taking into account the respective dates of incorporation, where applicable.

* *The English name is for identification purpose only.*

## 3. ADOPTION OF NEW AND AMENDMENTS TO HKFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently applied HKFRSs, including HKFRS 15 "*Revenue from Contracts with Customers*", that are effective for the financial year beginning on 1 January 2018 throughout the Track Record Period except that the Group adopted HKFRS 9 *Financial Instruments* on 1 January 2018 and HKAS 39 *Financial Instruments: Recognition and Measurement* during the three years ended 31 December 2017. The application of HKFRS 9 on 1 January 2018 has no impact on the consolidated financial position of the Group with regard to classification and measurement of financial instruments nor has any material additional impairment been recognised upon application of expected credit loss approach as at same date.

The Group has not early applied the following new and amendments to HKFRSs and interpretation that have been issued but are not yet effective:

| | |
|---|---|
| HKFRS 16 | Leases[1] |
| HKFRS 17 | Insurance Contracts[3] |
| HK(IFRIC) – Int 23 | Uncertainty over Income Tax Treatments[1] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2] |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement[1] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015 – 2017 Cycle[1] |

[1] Effective for annual periods beginning on or after 1 January 2019
[2] Effective for annual periods beginning on or after a date to be determined
[3] Effective for annual periods beginning on or after 1 January 2021

Except for the impacts mentioned below, the directors of the Company anticipate that the application of other new and amendments to HKFRSs and interpretation will have no material impact on the financial statements of the Group in the foreseeable future.

**HKFRS 16 "Leases"**

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases. The Group is a lessee of office, the leases of which are currently classified as operating leases. The Group's current accounting policy for such leases is set out in Note 4. As at 31 May 2018, the Group had non-cancellable minimum operating lease commitments of RMB122,000 as disclosed in Note 32, which are not reflected in the consolidated statements of financial position. Given that the total non-cancellable operating lease commitments account for 1.1% of the total liabilities of the Group as at 31 May 2018, the directors expect that the adoption of HKFRS 16 as compared with the current accounting policy would not result in significant impact on the Group's right-of-use assets and related lease liability. The combination of straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to the statement of profit or loss in the initial year of the lease, and decreasing expenses during the latter part of the lease term, but there is no impact on the total expenses recognised over the lease term. Based on facts and circumstances as at 31 May 2018, the directors of the Company do not expect the application of HKFRS 16 to have a material impact on the financial performance of the Group.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure. The Group will elect to apply HKFRS 16 retrospectively with cumulative effect of initially applying the standard recognised at the date of initial application without restating comparative. The Group will recognise the right-of-use asset at the date of initial application at an amount equal to the lease liability, which is measured at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of initial application, and adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position immediately before the date of initial application.

Furthermore, extensive disclosures are required by HKFRS 16.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The Historical Financial Information has been prepared on the historical cost basis and in accordance with the accounting policies set out below which conform to HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange and the Hong Kong Companies Ordinance.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if the market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurement that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

**Basis of consolidation**

The Historical Financial Information incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year/period are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

**Merger accounting for business combination involving businesses under common control**

The Historical Financial Information incorporates the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

**Investment in a subsidiary**

Investment in a subsidiary is included in the Company's statements of financial position at cost less any identified impairment losses.

**Revenue recognition**

Revenue is recognised to depict the transfer of promised goods to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods underlying the particular performance obligation is transferred to customers.

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

A contract asset represents the Group's right to consideration in exchange for goods that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. Specifically, revenue is recognised at a point in time upon i) delivering the goods to the customers' warehouse on which the customers obtain control of the goods or ii) the customers collect the goods directly from the Group's warehouse, as appropriate.

**Interest income**

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

**Borrowing costs**

Borrowing costs that are not eligible for capitalisation are recognised in profit or loss in the period in which they are incurred.

**Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

**Retirement benefit costs**

Payments to state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

**Short-term employee benefits**

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from 'profit (loss) before tax' as reported in the consolidated statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years/periods and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

**Property, plant and equipment**

Property, plant and equipment are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of assets over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

**Intangible assets**

***Internally-generated intangible assets – research and development expenditure***

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

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

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

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

**Impairment on tangible and intangible assets**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years/periods. A reversal of an impairment loss is recognised immediately in profit or loss.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**Financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

***Before the adoption of HKFRS 9 on 1 January 2018***

*Financial assets*

The Group's financial assets are loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including loan to Shenzhen Junxuan, trade receivables, other receivables, amount due from a director, amount due from a subsidiary and bank balances and cash are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on loans and receivables below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of loans and receivables, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables payments, observable changes in national or local economic conditions that correlate with default on trade receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables or other receivable, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

***After application of HKFRS 9***

*Classification of financial assets*

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL").

All recognised financial assets of the Group that are within the scope of HKFRS 9 (including loan to Shenzhen Junxuan, trade receivables, other receivables, amount due from a subsidiary and bank balances and cash are subsequently measured at amortised cost.

*Amortised cost and effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant periods.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses ("ECL"), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss using the effective interest method and is included in the "other income" line item.

*Impairment of financial assets*

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including loan to Shenzhen Junxuan, trade receivables, other receivables, amount due from a subsidiary and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date.

The Group always recognises lifetime ECL for trade receivables and measures the lifetime ECL on a collective basis for portfolios of trade receivables that share similar economic risk characteristics. The ECL on these financial assets are estimated using an analysis of trade-related receivables by risk type of customers (i.e. high risk, normal risk and low risk) and apply a probability-weighted estimate of the credit losses within the relevant risk type. The probability-weighted estimate of the credit losses is determined based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring since initial recognition.

*Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from financial analysts and governmental bodies, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default (i.e. no default history), ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group also considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

*Credit-impaired financial assets*

Financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

a) significant financial difficulty of the issuer or the borrower;

b) a breach of contract, such as a default or past due event;

c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

*Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement of HKFRS 9. No material additional impairment allowance has been recognised at the initial application of ECL approach.

*Write-off policy*

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are past due over two years, whichever is earlier. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised directly in profit or loss.

**Financial liabilities and equity instruments**

Debt and equity instruments issued by an entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

***Financial liabilities at amortised cost***

Financial liabilities including trade payables, other payables and accrued charges, amount due to Shenzhen Junxuan and bank borrowing are subsequently measured at amortised cost, using the effective interest method.

***Derecognition***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the management of the Group are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

**Estimated impairment of trade receivables**

Prior to 1 January 2018, when there is objective evidence of impairment loss, the Group takes into consideration the estimated future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2015, 2016 and 2017, the carrying amounts of trade receivables, net of allowance for doubtful debts, are approximately RMB7,368,000, RMB9,414,000 and RMB9,848,000, respectively.

Starting from 1 January 2018, the Group recognises lifetime ECL for trade receivables, using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise. As at 31 May 2018, the carrying amount of trade receivable is RMB11,388,000, (net of allowance for doubtful debts of RMB1,309,000).

**Estimation of useful lives and impairment of property, plant and equipment and intangible assets**

Management of the Group determines the estimated useful lives and depreciation/amortisation method in determining the related depreciation/amortisation charges for its property, plant and equipment and intangible assets. This estimate is based on the management's experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions in the past. Management of the Group will accelerate the depreciation/amortisation charge where the economic useful lives are shorter than previously estimated due to foreseeable removal or closure of factories and office premises. Actual economic useful lives may differ from estimated economic useful lives.

In addition, management of the Group assesses impairment whenever events or changes in circumstances indicate that the carrying amount of an item of property, plant and equipment and intangible assets may not be recoverable (i.e. write-off or write-down the carrying value of the items which are technically obsolete or non-strategic assets that have been abandoned). When the recoverable amounts of property, plant and equipment and intangible assets differ from the original estimates, adjustment will be made and recognised in the period in which such event takes place.

As at 31 December 2015, 2016 and 2017 and 31 May 2018, the carrying amounts of property, plant and equipment are approximately RMB4,622,000, RMB4,737,000, RMB9,574,000 and RMB9,417,000, respectively.

As at 31 December 2015, 2016 and 2017 and 31 May 2018, the carrying amounts of intangible assets are approximately RMB1,539,000, RMB1,752,000, RMB2,189,000 and RMB2,713,000, respectively.

## 6. REVENUE AND SEGMENT INFORMATION

Revenue represents the fair value of amounts received and receivable for selling of IVD reagents and auxiliary reproductive supplies and equipment to customers by the Group in the normal course of business and net of discounts during Track Record Period. The customers have neither rights of return nor rights to defer or avoid payment for the goods once they are accepted by the customers.

The Group's operating activities are attributable to a single operating segment focusing on research and development, manufacturing and sales of IVD reagents and auxiliary reproductive supplies and equipment. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies that disclosed in Note 4 and are regularly reviewed by the management of the Group, being the chief operating decision maker ("**CODM**"). Accordingly, the Group has only one operating segment. No further discrete financial information nor analysis of this single segment is presented as the CODM reviews the financial information of the Group as a whole.

**Revenue from major products**

The following is an analysis of the Group's revenue from its major products which are recognised at a point in time:

| | Year ended 31 December | | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Male fertility IVD reagents | 16,998 | 22,230 | 22,690 | 8,384 | 8,869 |
| Parasite antibody detection reagents | 888 | 1,226 | 1,908 | 505 | 1,067 |
| Epstein-Barr Virus antibody detection reagents | 1,081 | 1,041 | 869 | 215 | 329 |
| Auxiliary reproductive supplies and equipment | 489 | 913 | 1,074 | 502 | 747 |
| | 19,456 | 25,410 | 26,541 | 9,606 | 11,012 |

The customers of the Group are mainly distributors and non-distributors comprising hospitals and medical institutions in the PRC. All of the Group's revenue are made directly with the customers. Contracts with the Group's customers are mainly short term and fixed price contracts.

***Revenue are derived from the following customers:***

| | Year ended 31 December | | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (unaudited) | |
| Distributors | 8,444 | 11,513 | 12,203 | 3,869 | 5,362 |
| Non-distributors | 11,012 | 13,897 | 14,338 | 5,737 | 5,650 |
| | 19,456 | 25,410 | 26,541 | 9,606 | 11,012 |

**Geographical information**

No geographical segment information is presented as the Group's revenue are all derived from the PRC based on the location of goods delivered and all of the Group's non-current assets are located in the PRC by physical location of assets.

**Information about major customers**

Revenue from customer that individually accounted for 10% or more of the Group's total revenue during the Track Record Period is as follows:

| | Year ended 31 December | | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (unaudited) | |
| Customer A | 3,542 | 5,318 | 2,911 | 1,039 | 1,742 |

Other than Customer A, there was no revenue from other customers individually contributing over 10% of the total revenue of the Group for Track Record Period.

## 7. OTHER INCOME

| | Year ended 31 December | | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (unaudited) | |
| Interest income on loans to Shenzhen Junxuan | 1,278 | 123 | 54 | 34 | – |
| Government grants | 861 | 151 | 558 | 19 | 19 |
| Bank interest income | 12 | 36 | 89 | 18 | 19 |
| Sundry income | – | 3 | 2 | 2 | 34 |
| | 2,151 | 313 | 703 | 73 | 72 |

## 8. OTHER GAINS AND LOSSES

| | Year ended 31 December | | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Loss on disposal and written off of property, plant and equipment | – | 1,294 | – | – | – |
| Allowance for (reversal of allowance for) doubtful debts on trade and other receivables | 17 | 159 | 126 | 126 | (129) |
| Foreign exchange (gains) losses | – | – | (283) | – | 66 |
| Others | 72 | – | – | 7 | – |
| | 89 | 1,453 | (157) | 133 | (63) |

## 9. FINANCE COSTS

| | Year ended 31 December | | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Interest on bank borrowings | 1,278 | 123 | 54 | 34 | – |
| Others | 6 | 5 | – | – | – |
| | 1,284 | 128 | 54 | 34 | – |

## 10. INCOME TAX EXPENSE

| | Year ended 31 December | | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| PRC Enterprise Income Tax ("**EIT**") | | | | | |
| Current tax | 1,269 | 1,518 | 1,705 | 595 | 728 |

Current tax provision represents provision for PRC EIT. Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulations of the EIT Law, the tax rate of the entity established in the PRC is 25%. Since Shenzhen Huakang is recognised as "New and High Technology Enterprise" and therefore entitled to apply a tax rate of 15%. The entitlement of this tax benefit is subject to renewal by respective tax bureau in the PRC every three years. The latest approval for Shenzhen Huakang enjoying this tax benefit were obtained in October 2017 for the three years ending 31 December 2020.

The income tax expense for the Track Record Period can be reconciled to the profit (loss) before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

| | Year ended 31 December | | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Profit (loss) before tax | 9,203 | 9,944 | (247) | 4,130 | 2,198 |
| Tax at PRC EIT of 25% | 2,301 | 2,486 | (62) | 1,033 | 550 |
| Tax effect of income not taxable for tax purpose | – | – | (46) | – | (26) |
| Tax effect of expenses not deductible for tax purpose | 20 | 206 | 3,118 | 22 | 774 |
| Additional tax deduction on research and development expenses | (205) | (163) | (172) | (47) | (53) |
| Effect of tax concession granted | (847) | (1,011) | (1,135) | (413) | (520) |
| Others | – | – | 2 | – | 3 |
| Income tax expense for the year/ period | 1,269 | 1,518 | 1,705 | 595 | 728 |

Under the relevant tax law and implementation regulations in the PRC, withholding income tax is applicable to dividend earned and payable to investors that are "non-tax resident enterprises" in respect of profits earned by PRC subsidiary since 1 January 2008, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such interest or dividends have their sources within the PRC. Under such circumstances, dividends paid by the PRC subsidiary to offshore group entities shall be subject to the withholding tax at 10% or a lower treaty rate. The Group is subject to withholding tax in relation to the dividend paid by the subsidiary. As the Company has decided not to declare any dividends from undistributed earnings of the PRC subsidiary amounting to approximately RMB11,770,000, RMB17,482,000, RMB27,942,000 and RMB33,455,000 as at 31 December 2015, 2016 and 2017 and 31 May 2018, respectively, to the Company in the foreseeable future, no deferred tax liability has been recognised in respect of these undistributed earnings during the years/periods.

No provision for deferred taxation has been made in the Historical Financial Information as there were no significant temporary differences arising during the Track Record Period or at the end of each reporting periods.

## 11. PROFIT (LOSS) FOR THE YEAR/PERIOD

| | Year ended 31 December | | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Profit (loss) for the year/period has been arrived at after charging: | | | | | |
| Auditor's remuneration | 6 | 6 | 6 | 3 | 12 |
| Amortisation of intangible assets | 33 | 302 | 351 | 146 | 146 |
| Depreciation of property, plant and equipment | 478 | 606 | 1,071 | 354 | 532 |
| Rental expenses in respect of rented premises under operating lease | 865 | 763 | 488 | 203 | 203 |
| Directors' emoluments *(Note 12)* | 330 | 346 | 435 | 163 | 190 |
| Other staff costs | | | | | |
| Salaries, bonuses and other benefits | 4,089 | 4,179 | 4,188 | 1,599 | 2,142 |
| Retirement benefits scheme contributions | 614 | 659 | 585 | 257 | 294 |
| Total staff costs | 5,033 | 5,184 | 5,208 | 2,019 | 2,626 |

## 12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

### (a) Directors' and chief executive's emoluments

| **Name** | **Position** | **Date of appointment as the directors of the Company** | **Date of resignation as the directors of the Company** |
|---|---|---|---|
| Mr. Zhang Shuguang | Executive Director and chairman of the Board | 3 August 2017 | N/A |
| Mr. Zhang Chunguang (brother of Mr. Zhang and Mr. Chang) | Executive Director and chief executive officer (Chief Executive) | 3 August 2017 | N/A |
| Mr. Zhang Xiyu | Executive Director | 3 August 2017 | 3 November 2017 |
| Mr. Poon Lai Yin Michael | Executive Director and chief financial officer | 3 August 2017 | N/A |
| Mr. Chan Kin Sang | Independent non-executive Director | 26 November 2018 | N/A |
| Dr. Yeung David Wai Chow | Independent non-executive Director | 26 November 2018 | N/A |
| Mr. Kwok Chi Shing | Independent non-executive Director | 26 November 2018 | N/A |

Details of the emoluments paid or payable to the directors and chief executive of the Company (including emoluments for the services as employees or directors of group entities prior to becoming the directors of the Company) by the group entities during the Track Record Period are as follows:

**Year ended 31 December 2015**

| | **Mr. Zhang Shuguang** *RMB'000* | **Mr. Zhang Chunguang** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|
| Fee | – | – | – |
| Other emoluments | | | |
| Salaries and other benefits | 112 | 122 | 234 |
| Discretionary bonuses | 9 | 43 | 52 |
| Retirement benefits scheme contributions | 19 | 25 | 44 |
| Total emoluments | 140 | 190 | 330 |

**Year ended 31 December 2016**

| | **Mr. Zhang Shuguang** *RMB'000* | **Mr. Zhang Chunguang** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|
| Fee | – | – | – |
| Other emoluments | | | |
| Salaries and other benefits | 123 | 142 | 265 |
| Discretionary bonuses | 11 | 27 | 38 |
| Retirement benefits scheme contributions | 18 | 25 | 43 |
| Total emoluments | 152 | 194 | 346 |

**Year ended 31 December 2017**

| | **Mr. Zhang Shuguang** *RMB'000* | **Mr. Zhang Chunguang** *RMB'000* | **Mr. Zhang Xiyu** *RMB'000* | **Mr. Poon Lai Yin Michael** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|---|---|
| Fee | – | – | – | – | – |
| Other emoluments | | | | | |
| Salaries and other benefits | 156 | 183 | – | – | 339 |
| Discretionary bonuses | 20 | 40 | – | – | 60 |
| Retirement benefits scheme contributions | 16 | 20 | – | – | 36 |
| Total emoluments | 192 | 243 | – | – | 435 |

**Five months ended 31 May 2017 (unaudited)**

| | Mr. Zhang Shuguang | Mr. Zhang Chunguang | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Fee | – | – | – |
| Other emoluments | | | |
| Salaries and other benefits | 65 | 76 | 141 |
| Retirement benefits scheme contributions | 10 | 12 | 22 |
| Total emoluments | 75 | 88 | 163 |

**Five months ended 31 May 2018**

| | Mr. Zhang Shuguang | Mr. Zhang Chunguang | Mr. Poon Lai Yin Michael | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Fee | – | – | – | – |
| Other emoluments | | | | |
| Salaries and other benefits | 75 | 92 | – | 167 |
| Retirement benefits scheme contributions | 10 | 13 | – | 23 |
| Total emoluments | 85 | 105 | – | 190 |

The directors' emoluments are for their services in connection to the management of the affairs of the Group.

During the Track Record Period, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors have waived any remuneration during the Track Record Period.

Discretionary bonuses are determined based on the results of the Group during the Track Record Period.

**(b) Employees' emoluments**

The five highest paid individuals included two directors whose emoluments are included in the disclosures above for the years ended 31 December 2015, 2016 and 2017 and the five months ended 31 May 2017 and 2018. The emoluments of the remaining three individuals for the years ended 31 December 2015, 2016 and 2017 and the five months ended 31 May 2017 and 2018 are as follows:

| | Year ended 31 December | | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Salaries and other benefits | 312 | 355 | 449 | 186 | 218 |
| Discretionary bonuses | 93 | 71 | 71 | – | – |
| Retirement benefits scheme contributions | 36 | 35 | 40 | 18 | 31 |
| | 441 | 461 | 560 | 204 | 249 |

The emoluments of each of these highest paid individuals during the Track Record Period are within HK$1,000,000. No emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 13. RETIREMENT BENEFITS SCHEMES

The employees of the Group are members of a state-managed retirement benefit scheme operated by the PRC government. The Group is required to contribute certain percentage of payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

The total expense recognised in profit or loss of RMB658,000, RMB702,000, RMB621,000, RMB279,000 (unaudited) and RMB317,000 for the years ended 31 December 2015, 2016 and 2017 and the five months ended 31 May 2017 and 2018, respectively, represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

As at 31 December 2015, 2016 and 2017 and 31 May 2018, contributions of RMB590,000, RMB898,000, RMB937,000 and RMB696,000 had not been paid over to the plans, respectively.

## 14. DIVIDEND

No dividend was paid or declared by the Group during the Track Record Period.

## 15. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the following data:

| | Year ended 31 December | | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Earnings (loss): | | | | | |
| Earnings (loss) for the year/period attributable to the owners of the Company for the purpose of basic earnings (loss) per share | 7,934 | 8,426 | (1,952) | 3,535 | 1,470 |
| Number of shares: | *'000* | *'000* | *'000* | *'000* | *'000* |
| Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share | 240,000 | 240,000 | 260,219 | 240,000 | 300,000 |

The number of ordinary shares for the purpose of calculating basic earnings (loss) per share has been determined on the assumption that the Group Reorganisation and **[REDACTED]** as described in Appendix IV to the Document has been effective on 1 January 2015.

No diluted earnings (loss) per share for the Track Record Period was presented as there were no potential ordinary shares in issue during the Track Record Period.

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvement *RMB'000* | Plant and machinery *RMB'000* | Office equipment *RMB'000* | Motor vehicles *RMB'000* | Construction-in-progress *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|
| COST | | | | | | |
| At 1 January 2015 | 3,278 | 1,629 | 162 | 694 | – | 5,763 |
| Additions | – | 422 | 105 | – | 2,086 | 2,613 |
| At 31 December 2015 | 3,278 | 2,051 | 267 | 694 | 2,086 | 8,376 |
| Additions | – | 1,072 | 325 | – | 660 | 2,057 |
| Transfer from construction-in-progress | 2,316 | – | – | – | (2,316) | – |
| Disposals/written-off | (3,278) | (984) | – | – | – | (4,262) |
| At 31 December 2016 | 2,316 | 2,139 | 592 | 694 | 430 | 6,171 |
| Additions | – | 4,456 | 181 | 460 | 811 | 5,908 |
| Transfer from construction-in-progress | 339 | – | – | – | (339) | – |
| At 31 December 2017 | 2,655 | 6,595 | 773 | 1,154 | 902 | 12,079 |
| Additions | 20 | 345 | 10 | – | – | 375 |
| At 31 May 2018 | 2,675 | 6,940 | 783 | 1,154 | 902 | 12,454 |
| DEPRECIATION | | | | | | |
| At 1 January 2015 | 1,769 | 1,075 | 106 | 326 | – | 3,276 |
| Charged for the year | 146 | 167 | 26 | 139 | – | 478 |
| At 31 December 2015 | 1,915 | 1,242 | 132 | 465 | – | 3,754 |
| Charged for the year | 247 | 235 | 35 | 89 | – | 606 |
| Eliminated on disposals/written-off | (2,029) | (897) | – | – | – | (2,926) |
| At 31 December 2016 | 133 | 580 | 167 | 554 | – | 1,434 |
| Charged for the year | 297 | 605 | 81 | 88 | – | 1,071 |
| At 31 December 2017 | 430 | 1,185 | 248 | 642 | – | 2,505 |
| Charged for the period | 135 | 310 | 35 | 52 | – | 532 |
| At 31 May 2018 | 565 | 1,495 | 283 | 694 | – | 3,037 |
| CARRYING VALUES | | | | | | |
| At 31 December 2015 | 1,363 | 809 | 135 | 229 | 2,086 | 4,622 |
| At 31 December 2016 | 2,183 | 1,559 | 425 | 140 | 430 | 4,737 |
| At 31 December 2017 | 2,225 | 5,410 | 525 | 512 | 902 | 9,574 |
| At 31 May 2018 | 2,110 | 5,445 | 500 | 460 | 902 | 9,417 |

The above items of property, plant and equipment are depreciated on a straight-line basis over the following periods:

| | |
|---|---|
| Leasehold improvement | 10 years to 15 years |
| Plant and machinery | 5 years to 10 years |
| Office equipment | 5 years to 10 years |
| Motor vehicles | 5 years |

## 17. INTANGIBLE ASSETS

| | **Development costs** *RMB'000* |
|---|---|
| COST | |
| At 1 January 2015 | 597 |
| Additions | 975 |
| At 31 December 2015 | 1,572 |
| Additions | 515 |
| At 31 December 2016 | 2,087 |
| Additions | 788 |
| At 31 December 2017 | 2,875 |
| Additions | 670 |
| At 31 May 2018 | 3,545 |
| AMORTISATION | |
| At 1 January 2015 | – |
| Charged for the year | 33 |
| At 31 December 2015 | 33 |
| Charged for the year | 302 |
| At 31 December 2016 | 335 |
| Charged for the year | 351 |
| At 31 December 2017 | 686 |
| Charged for the period | 146 |
| At 31 May 2018 | 832 |
| CARRYING VALUES | |
| At 31 December 2015 | 1,539 |
| At 31 December 2016 | 1,752 |
| At 31 December 2017 | 2,189 |
| At 31 May 2018 | 2,713 |

Development costs are internally generated and has finite useful lives and amortised on a straight line basis over 5 years.

## 18. INVENTORIES

| | **As at 31 December** | | | **As at 31 May** |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Raw materials | 1,373 | 1,162 | 931 | 1,011 |
| Finished goods | 1,008 | 1,246 | 1,014 | 840 |
| | 2,381 | 2,408 | 1,945 | 1,851 |

## 19. TRADE RECEIVABLES

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade receivables | 8,260 | 10,421 | 11,277 | 12,697 |
| Less: allowance of doubtful debts | (892) | (1,007) | (1,429) | (1,309) |
| | 7,368 | 9,414 | 9,848 | 11,388 |

In general, the Group will request deposits from the customers before the products are delivered and the amount of deposits requested varies amongst different contracts. For certain long-term customers, the Group will deliver the goods without requesting deposits and allow a credit period from 30 to 180 days to these customers and there is no credit period granted to other customers. The following is an aged analysis of trade receivables presented based on the goods delivery date, which were the respective revenue recognition dates, at the end of each reporting period.

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| 0 – 30 days | 2,168 | 3,144 | 2,300 | 2,268 |
| 31 – 90 days | 2,718 | 2,567 | 3,276 | 3,553 |
| 91 – 180 days | 1,653 | 2,348 | 2,922 | 3,037 |
| 181 – 365 days | 829 | 1,062 | 1,350 | 2,314 |
| Over 365 days | – | 293 | – | 216 |
| | 7,368 | 9,414 | 9,848 | 11,388 |

Included in the Group's trade receivables are debtors with aggregate carrying amount of RMB5,557,000, RMB7,350,000, RMB8,193,000 and RMB8,932,000 which are past due at 31 December 2015, 2016 and 2017 and 31 May 2018, respectively, for which the Group has not provided for impairment loss as there has not been a significant change in credit quality of the trade receivable and the amounts are still considered recoverable. The Group does not hold any collateral over these balances and no interest is charged on overdue trade receivables. The trade receivables that were neither past due nor impaired is related to a number of diversified customers for whom there was no recent history of default.

The following is an aged analysis of trade receivables which are past due but not impaired at the end of each of the reporting period:

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| 0 – 30 days | 1,646 | 2,534 | 1,866 | 1,647 |
| 31 – 90 days | 1,945 | 1,879 | 2,471 | 2,728 |
| 91 – 180 days | 1,137 | 1,582 | 2,591 | 2,047 |
| 181 – 365 days | 829 | 1,062 | 1,265 | 2,294 |
| Over 365 days | – | 293 | – | 216 |
| | 5,557 | 7,350 | 8,193 | 8,932 |

Prior to 1 January 2018, overdue balances are reviewed regularly by the management of the Group. Based on historical experience, the receivables that are past due beyond one year are generally not recoverable. The Group reviews the recoverability of long aged receivables on a case by case basis.

In determining the recoverability of a receivable, the Group considers whether there has been adverse change in the credit standing of the debtor. The management of the Group believes that there is no further credit provision required in excess of the allowance for doubtful debts already provided given the settlement from trade receivables after the reporting period and the remaining trade receivables have no recent history of default. The balance of the allowance for impairment loss are individually impaired trade receivables which have been overdue over 365 days.

Starting from 1 January 2018, the Group applied simplified approach to provide the expected credit losses prescribed by HKFRS 9. The impairment methodology is set out in Note 4. The directors of the Company considered that the presumption on the credit risk on a financial asset being increased significantly since initial recognition when contractual payments are more than 30 days past due would be rebutted by considering the subsequent settlement and historical payment arrangement of trade receivables.

As part of the Group's credit risk management, the Group assesses the impairment for its customers based on different group of customers which share common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Details of the credit risk assessment are included in note 31.

| **Customers** | **Gross carrying amount** *RMB'000* | **Weighted average loss rate** | **Loss allowance** *RMB'000* | **Net carrying amount** *RMB'000* |
|---|---|---|---|---|
| High risk | 617 | 3.9% | 24 | 593 |
| Normal risk | 6,471 | 2.0% | 130 | 6,341 |
| Low risk | 4,511 | 1.3% | 57 | 4,454 |
| | 11,599 | | 211 | 11,388 |
| Credit impaired | 1,098 | N/A | 1,098 | – |
| | 12,697 | | 1,309 | 11,388 |

**Movement in allowance for doubtful debts for years ended 31 December 2015, 2016 and 2017, and movement in lifetime ECL that has been recognised in accordance with simplified approach set out in HKFRS 9 for the five months ended 31 May 2018 as follows:**

| | **As at 31 December** | | | **As at 31 May** |
|---|---|---|---|---|
| | **2015** *RMB'000* | **2016** *RMB'000* | **2017** *RMB'000* | **2018** *RMB'000* |
| Balance at beginning of the year/ period | 854 | 892 | 1,007 | 1,429 |
| Impairment loss recognised | 176 | 250 | 473 | 276 |
| Reversal of allowance for doubtful debts | (138) | (135) | (51) | (396) |
| Balance at end of the year/period | 892 | 1,007 | 1,429 | 1,309 |

The movement in loss allowance provision in respect of trade receivable during the period was as follows:

| | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2018 | – | 1,429 | 1,429 |
| Impairment recognised | 211 | 65 | 276 |
| Reversed of allowance for doubtful debts | – | (396) | (396) |
| At 31 May 2018 | 211 | 1,098 | 1,309 |

All of the above impairment losses related to receivables arising from contracts with customers.

The movement for the five months ended 31 May 2018, i.e. in lifetime ECL, impairment has been recognised for trade receivables in accordance with the simplified approach set out in HKFRS 9. During the five months ended 31 May 2018, an impairment loss of RMB65,000 was recognised for credit impaired trade receivables.

## 20. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | The Group | | | | The Company | |
|---|---|---|---|---|---|---|
| | As at 31 December | | | As at 31 May | As at 31 December | As at 31 May |
| | 2015 | 2016 | 2017 | 2018 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Other receivables | 2,834 | 1,599 | 475 | 481 | – | – |
| Less: allowance of doubtful debts | (322) | (366) | (70) | (61) | – | – |
| | 2,512 | 1,233 | 405 | 420 | – | – |
| Rental and other deposits | 173 | – | – | – | – | – |
| Prepayment of rental expense *(note)* | – | – | – | 336 | – | – |
| Advance payment to suppliers | 221 | 213 | 364 | 250 | – | – |
| Deferred issued costs of new shares | – | – | 3,542 | 4,103 | 3,542 | 4,103 |
| | 2,906 | 1,446 | 4,311 | 5,109 | 3,542 | 4,103 |

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Balance at beginning of the year/ period | 343 | 322 | 366 | 70 |
| Impairment loss recognised | – | 44 | 42 | 10 |
| Reversal of allowance for doubtful debt | (21) | – | (338) | (19) |
| Balance at end of the year/period | 322 | 366 | 70 | 61 |

Note: The amount represented the prepayment of rental expense to Shenzhen Junxuan and it will be amortised over the lease term.

The balance of the allowance for impairment loss is individually impaired other receivables which have been overdue over 365 days and are generally not recoverable based on historical experience.

## 21. AMOUNT DUE FROM A DIRECTOR

| | Year ended 31 December | | | As at 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Maximum amount outstanding during the year/period | 273 | 273 | – | – |

| | **As at 1 January 2015** | **As at 31 December 2015** | **2016** | **2017** | **As at 31 May 2018** |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Carrying amount | 173 | 273 | – | – | – |

The amount represented the advance to a director, Mr. Zhang Chunguang, and it was unsecured, non-trade in nature, non-interest bearing and fully settled during the year ended 31 December 2016.

## 22. BANK BALANCES AND CASH

Bank balances are carrying interest at prevailing market rate as at 31 December 2015, 2016 and 2017 and 31 May 2018. The directors of the Company considered that the ECL for bank balance is insignificant as at 31 May 2018.

Bank balances and cash that are not denominated in the functional currency of the relevant group entities are as follow:

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| HK$ | 2 | 2 | 4,757 | 3,558 |
| US$ | 11 | 11 | 11 | 11 |

## 23. TRADE PAYABLES

In general, the Group will make advance payment to suppliers before the materials are received. Some of the suppliers may deliver the materials to the Group without requesting advance payment and a credit period ranged from 30 days to 90 days is granted by these suppliers. The following is an ageing analysis of trade payables presented based on the invoice date at the end of each reporting period:

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| 0 – 30 days | 58 | 275 | 164 | 157 |
| 31 – 90 days | 102 | 304 | 151 | 238 |
| Over 90 days | 546 | 614 | 551 | 482 |
| | 706 | 1,193 | 866 | 877 |

## 24. OTHER PAYABLES AND ACCRUED CHARGES

| | The Group | | | | The Company | |
|---|---|---|---|---|---|---|
| | As at 31 December | | | As at 31 May | As at 31 December | As at 31 May |
| | 2015 | 2016 | 2017 | 2018 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Salaries payables | 1,108 | 1,097 | 1,186 | 388 | – | 31 |
| Other tax payable | 79 | 113 | 122 | 27 | – | – |
| Payables for purchase of property, plant and equipment | – | – | 1,140 | 1,140 | – | – |
| Provision for social insurance | 590 | 898 | 937 | 696 | – | – |
| Accrued **[REDACTED]** | – | – | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| Other accrual and payables | 281 | 316 | 220 | 495 | – | 278 |
| | 2,058 | 2,424 | 7,942 | 8,904 | 4,337 | 6,467 |

Other payables and accrued charges that are not denominated in the functional currency of the relevant group entities are as follows:

| | The Group | | | | The Company | |
|---|---|---|---|---|---|---|
| | As at 31 December | | | As at 31 May | As at 31 December | As at 31 May |
| | 2015 | 2016 | 2017 | 2018 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| HK$ | – | – | 3,943 | 5,107 | 3,943 | 5,107 |

## 25. LOAN TO SHENZHEN JUNXUAN/AMOUNTS DUE FROM (TO) A SUBSIDIARY AND SHENZHEN JUNXUAN

**The Group**

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Loan to Shenzhen Junxuan | 1,550 | 950 | – | – |
| Less: amount recovered within one year shown under current assets | (600) | (600) | – | – |
| Amount shown under non-current assets | 950 | 350 | – | – |

| | Year ended 31 December | | | Five months ended |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 31 May 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Maximum amount outstanding during the year/period | 27,650 | 1,550 | 950 | – |

| | As at | | | | |
|---|---|---|---|---|---|
| | 1 January | As at 31 December | | | As at 31 May |
| | 2015 | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Carrying amount | 10,650 | 1,550 | 950 | – | – |

The loan to Shenzhen Junxuan is unsecured, interest bearing at fixed rate of 9.5% per annum and repayable in next 36 months from the date of drawn down. The amount was fully settled in August 2017.

The amount due to Shenzhen Junxuan represented the advance from Shenzhen Junxuan and it is non-trade in nature, unsecured, non-interest bearing and repayable on demand.

**The Company**

The amount due from a subsidiary is non-trade in nature, unsecured, non-interest bearing and repayable on demand and denominated in HK$. The directors of the Company considered that the ECL for amount due from a subsidiary is insignificant as at 31 May 2018.

## 26. BANK BORROWING

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Unsecured bank borrowing | 1,550 | 950 | – | – |
| Carrying amount of the above borrowing repayable*: | | | | |
| Within one year | 600 | 600 | – | – |
| More than one year but not exceeding two years | 600 | 350 | – | – |
| More than two years but not more than five years | 350 | – | – | – |
| | 1,550 | 950 | – | – |
| Less: amount due within one year shown under current liabilities | (600) | (600) | – | – |
| Amount shown under non-current liabilities | 950 | 350 | – | – |

* *The amount due is based on scheduled repayment date set out in the loan agreement.*

The Group's bank borrowing as at 31 December 2015 and 2016 are denominated in RMB. The bank borrowing was guaranteed by Mr. Zhang Shuguang, Mr. Chang Yim Yang and Shenzhen Junxuan and these guarantees have been released upon repayment of bank borrowing in August 2017.

The unsecured bank borrowing is interest bearing with fixed rate of 9.5% per annum as at 31 December 2015 and 2016.

## 27. CONTRACT LIABILITIES

| | As at | | | | As at |
|---|---|---|---|---|---|
| | 1 January | As at 31 December | | | 31 May |
| | 2015 | 2015 | 2016 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Contract liabilities regarding sales of IVD reagents and auxiliary reproductive supplies and equipment | 556 | 552 | 199 | 194 | 178 |

For the contract liabilities as at 1 January 2015, 31 December 2015, 2016 and 2017, the entire balances are recognised as revenue to profit or loss in the next reporting year/period. The directors of the Company considered that the entire balance of contract liabilities as at 31 May 2018 will be recognised as revenue to profit or loss within twelve months subsequent to 31 May 2018.

## 28. DEFERRED INCOME – GOVERNMENT GRANTS

The Group received grants from the PRC Government for funding of acquisitions of plant and equipment for conducting research and development of the biological reagents which benefits the society as a whole. The relevant deferred income would be amortised ranged from 5 to 10 years which represented the useful lives of the relevant assets.

## 29. COMBINED CAPITAL/SHARE CAPITAL

The combined capital as at 1 January 2015 and 31 December 2015 and 2016 represented the aggregate amount of the share capital of King Grace and the paid-up capital of Shenzhen Huakang.

The share capital of King Grace as at 1 January 2015 and 31 December 2015 and 2016 represented 100 issued and fully paid ordinary shares with a par value of US$0.10 each.

The paid-up capital of Shenzhen Huakang as at 1 January 2015 and 31 December 2015 and 2016 was US$500,000, equivalent to approximately RMB3,469,000.

**Share capital of the Company**

| | Number of share | Amount *HK$* | Amount *RMB'000* |
|---|---|---|---|
| Authorised ordinary shares at HK$0.01 per share: | | | |
| At 3 August 2017 (date of incorporation) *(Note 2(i))*, 31 December 2017 and 31 May 2018 | 38,000,000 | 380,000 | 316 |
| Issued and fully paid ordinary shares at HK$0.01 per share: | | | |
| At 3 August 2017 (date of incorporation) *(Note 2(i))* | 1,000 | 10 | – |
| Share allotments | | | |
| – on 28 August 2017 *(Note 2(i))* | 9,000 | 90 | – |
| – on 31 August 2017 *(Note 2(iii))* | 2,500 | 25 | – |
| At 31 December 2017 and 31 May 2018 | 12,500 | 125 | – |

## 30. CAPITAL RISK MANAGEMENT

The management of the Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of debts, which includes bank borrowing as disclosed in Note 26, net of bank balances and cash and equity attributable to owners of the Company, comprising combined capital/issued share capital, accumulated profits and other reserves.

Management of the Group reviews the capital structure regularly taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through increase of new capital and the raise of bank borrowings.

## 31. FINANCIAL INSTRUMENTS

**Categories of financial instruments**

| | The Group | | | | The Company | |
|---|---|---|---|---|---|---|
| | As at 31 December | | | As at 31 May | As at 31 December | As at 31 May |
| | 2015 | 2016 | 2017 | 2018 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Financial assets | | | | | | |
| Loans and receivables (including cash and cash equivalents) | 17,969 | 27,511 | 30,064 | N/A | 5,553 | N/A |
| Amortised cost | N/A | N/A | N/A | 29,622 | N/A | 4,110 |
| | 17,969 | 27,511 | 30,064 | 29,622 | 5,553 | 4,110 |
| Financial liabilities | | | | | | |
| Amortised cost | 8,944 | 9,713 | 7,859 | 9,058 | 4,337 | 6,467 |

The Group's and the Company's financial instruments include loan to Shenzhen Junxuan, trade receivables, other receivables, amount due from a director, amount due from a subsidiary, bank balances and cash, trade payables, other payables and accrued charges, amount due to Shenzhen Junxuan and bank borrowing. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (currency risk and interest rate risk), credit risk and liquidity risk, and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Market risk**

***(i) Currency risk***

The Group and the Company have certain bank balances and cash, other payables and accrued charges and amount due from a subsidiary which are denominated in foreign currency, hence they are exposed to foreign exchange risk. The carrying amounts of the Group's and the Company's foreign currency denominated monetary assets and liabilities at the end of each of the reporting period are as follows:

| | The Group | | | | | | | The Company | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Assets | | | | Liabilities | | | Assets | | Liabilities | | |
| | As at 31 December | | | As at 31 May | As at 31 December | | | As at 31 May | As at 31 December | As at 31 May | As at 31 December | As at 31 May |
| | 2015 | 2016 | 2017 | 2018 | 2015 | 2016 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| HK$ | 2 | 2 | 4,757 | 3,558 | – | – | 3,943 | 5,107 | 5,553 | 4,110 | 3,943 | 5,107 |
| US$ | 11 | 11 | 11 | 11 | – | – | – | – | – | – | – | – |

The Group does not enter into any derivative contracts to minimise the currency risk exposure. However, management monitors foreign exchange exposure and will consider hedging significant foreign exchange risk should the need arises.

**Sensitivity analysis**

In the opinion of management of the Group, the expected change in foreign exchange rate will not have significant impact on the foreign currency denominated bank balances and cash, other payables and accrued charges and amount due from a subsidiary, hence sensitivity analysis is not presented.

***(ii) Interest rate risk***

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances (Note 22). The Group is also exposed to fair value interest rate risk in relation to fixed-rate loan to Shenzhen Junxuan (Note 25) and bank borrowing (Note 26).

The Company does not expose to significant interest rate risk as at 31 December 2017 and 31 May 2018.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of prevailing market interest rates arising from the Group's bank balances. The Group currently does not have any interest rate hedging policy. The management of the Group monitors the Group's exposure on ongoing basis and will consider hedging interest rate risk should the need arises.

***Sensitivity analysis***

In the opinion of management of the Group, the expected change in interest rate will not have significant impact on the interest income from bank balances, hence sensitivity analysis is not presented.

**Credit risk**

***Under HKAS 39 and HKFRS 9***

The Group's and the Company's credit risk is primarily attributable to loan to Shenzhen Junxuan, amounts due from a director and a subsidiary, trade receivables, other receivables and bank balances.

The Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge the obligations by counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the Group's consolidated statements of financial position at the end of each reporting period and the Company's statements of financial position as at 31 December 2017 and 31 May 2018.

At 31 December 2015, 2016 and 2017 and 31 May 2018, the Group has concentration of credit risk on trade receivables from the Group's largest customer amounting to RMB1,011,000, RMB1,401,000, RMB1,511,000 and RMB1,883,000, representing approximately 14%, 15%, 15% and 17% of the total trade receivables, respectively. At 31 December 2015, 2016 and 2017 and 31 May 2018, trade receivables from the five largest customers amounts to RMB3,312,000, RMB4,566,000, RMB3,853,000, and RMB4,372,000 representing approximately 45%, 49%, 39% and 38% of the total trade receivables, respectively.

The credit risk for bank balances is considered as not material as such amounts are placed in banks with good reputations.

The Group has significant concentration of credit risks on loan to Shenzhen Junxuan and the management of the Group consider the counterparty is with good credit worthiness based on its past repayment history.

The credit risk of amount due from a subsidiary is insignificant as the management of the Group periodically monitors the balance to ensure that the subsidiary is viable to settle the debts.

***Under HKAS 39***

In order to minimise the credit risk, the management of the Group is responsible for determination of credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Group also requests deposits from certain customers prior to goods delivery. In addition, the management of the Group reviews the recoverable amount of each individual trade receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

***Under HKFRS 9***

Starting from 1 January 2018, the Group reassess the lifetime ECL for trade receivables and the 12m ECL for other receivables at the end of each reporting period to ensure that adequate impairment losses are made for significant increases in the likelihood or risk of a default occurring since initial recognition. In this regard, management of the Group considers that the Group's credit risk is significantly reduced.

In order to minimise credit risk, the Group has delegated its finance team to develop and maintain the Group's credit risk grading to categorise exposures according to the degree of risk of default of the debtors. The finance team uses publicly available financial information and the Group's own historical repayment records to rate its major customers and debtors. The Group's exposure and the credit quality of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group's current credit risk grading framework comprises the following categories:

| **Category** | **Description** | **Basis for recognising ECL** |
|---|---|---|
| Performing | The counterparty has a low risk of default and does not have any past-due amounts | 12m ECL |
| Doubtful | There has been a significant increase in credit risk since initial recognition | Lifetime ECL – not credit-impaired |
| In default | There is evidence indicating the asset is credit impaired | Lifetime ECL – credit impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery | Amount is written off |

For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items by using a provision matrix, estimated based on historical credit loss experience based on the past default experience of the debtor, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

To measure the expected credit losses, trade receivables has been grouped based on shared credit risk characteristics (including high risk, normal risk and low risk type). The loss allowance provision as at 31 May 2018 is disclosed in Note 19.

For bank balances, the Group has assessed and concluded that the expected credit loss rate for these balances is immaterial based on the Group's assessment on the risk of the default of the counterparties. Thus, no loss allowance provision for the amounts is recognised during the five months ended 31 May 2018.

For amount due from a subsidiary, the Company measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Company recognises lifetime ECL. The Company has assessed and concluded that the expected credit loss rate for such receivable is low based on the Company's assessment on the risk of the default of that counterparty. Thus, no loss allowance provision for the amount as recognised during the five months ended 31 May 2018.

**Liquidity risk**

In management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

***The Group***

| | Weighted average effective interest rate | Repayable on demand or less than 3 months | 3 months to 1 year | 1 – 5 years | Total undiscounted cash flows | Total carrying amount |
|---|---|---|---|---|---|---|
| | % | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| As at 31 December 2015 | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade payables | – | 706 | – | – | 706 | 706 |
| Other payables and accrued charges | – | 1,389 | – | – | 1,389 | 1,389 |
| Amount due to Shenzhen Junxuan | – | 5,299 | – | – | 5,299 | 5,299 |
| Bank borrowing | 9.5 | – | 719 | 995 | 1,714 | 1,550 |
| | | 7,394 | 719 | 995 | 9,108 | 8,944 |

| | Weighted average effective interest rate | Repayable on demand or less than 3 months | 3 months to 1 year | 1 – 5 years | Total undiscounted cash flows | Total carrying amount |
|---|---|---|---|---|---|---|
| | % | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| As at 31 December 2016 | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade payables | – | 1,193 | – | – | 1,193 | 1,193 |
| Other payables and accrued charges | – | 1,413 | – | – | 1,413 | 1,413 |
| Amount due to Shenzhen Junxuan | – | 6,157 | – | – | 6,157 | 6,157 |
| Bank borrowing | 9.5 | – | 662 | 367 | 1,029 | 950 |
| | | 8,763 | 662 | 367 | 9,792 | 9,713 |

| | Weighted average effective interest rate | Repayable on demand or less than 3 months | 3 months to 1 year | 1 – 5 years | Total undiscounted cash flows | Total carrying amount |
|---|---|---|---|---|---|---|
| | % | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| As at 31 December 2017 | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade payables | – | 866 | – | – | 866 | 866 |
| Other payables and accrued charges | – | 6,883 | – | – | 6,883 | 6,883 |
| Amount due to Shenzhen Junxuan | – | 110 | – | – | 110 | 110 |
| | | 7,859 | – | – | 7,859 | 7,859 |

| | Weighted average effective interest rate | Repayable on demand or less than 3 months | 3 months to 1 year | 1 – 5 years | Total undiscounted cash flows | Total carrying amount |
|---|---|---|---|---|---|---|
| | % | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| As at 31 May 2018 | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade payables | – | 877 | – | – | 877 | 877 |
| Other payables and accrued charges | – | 8,181 | – | – | 8,181 | 8,181 |
| | | 9,058 | – | – | 9,058 | 9,058 |

***The Company***

| | Weighted average effective interest rate | Repayable on demand or less than 3 months | 3 months to 1 year | 1 – 5 years | Total undiscounted cash flow | Total carrying amount |
|---|---|---|---|---|---|---|
| | % | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| As at 31 December 2017 | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Other payables and accrued charges | – | 4,337 | – | – | 4,337 | 4,337 |

| | Weighted average effective interest rate | Repayable on demand or less than 3 months | 3 months to 1 year | 1 – 5 years | Total undiscounted cash flow | Total carrying amount |
|---|---|---|---|---|---|---|
| | % | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| As at 31 May 2018 | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Other payables and accrued charges | – | 6,467 | – | – | 6,467 | 6,467 |

**Fair value measurements of financial instruments**

***Fair value of the Group's and the Company's financial assets and financial liabilities that are not measured at fair value on recurring basis***

The management of the Group considers that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair values based on a discounted cash flow analysis.

## 32. OPERATING LEASE COMMITMENTS

**The Group as lessee**

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within one year | 231 | 111 | 111 | 122 |

The operating lease commitments as at 31 December 2015 represents rental commitments by the Group to an independent third party for its factories and office premises. Lease and rental are negotiated and fixed for a term of one year. Lease was cancellable with not less than three months' notice.

The operating lease commitments as at 31 December 2016 and 2017 and 31 May 2018 represent rental commitments by the Group to Shenzhen Junxuan for its factories and office premises. Leases and rentals are negotiated and fixed for a term of three years.

## 33. CAPITAL COMMITMENTS

| | As at 31 December | | | As at 31 May |
|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the Historical Financial Information | 947 | 235 | 221 | 137 |

## 34. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Historical Financial Information, the Group had entered into following transactions with its related party during the Track Record Period:

| | Year ended 31 December | | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (unaudited) | |
| Interest income received from Shenzhen Junxuan | 1,278 | 123 | 54 | 34 | – |
| Rental and utilities expenses paid to Shenzhen Junxuan | – | 368 | 709 | 359 | 348 |

Shenzhen Junxuan is the ultimate holding company of Shenzhen Huakang prior to the completion of the Group Reorganisation as defined in Note 2 and Shenzhen Junxuan is ultimately controlled by Mr. Zhang Shuguang, the director of the Company and Shenzhen Huakang during the Track Record Period.

**Compensation of key management personnel**

The emoluments of directors, as key management of the Group, during the years ended 31 December 2015, 2016 and 2017 and the five months ended 31 May 2017 and 2018 were as follows:

| | Year ended 31 December | | | Five months ended 31 May | |
|---|---|---|---|---|---|
| | **2015** | **2016** | **2017** | **2017** | **2018** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (unaudited) | |
| Short-term benefits | 286 | 303 | 399 | 141 | 167 |
| Post-employment benefits | 44 | 43 | 36 | 22 | 23 |
| | 330 | 346 | 435 | 163 | 190 |

## 35. INVESTMENT IN A SUBSIDIARY

| | The Company | |
|---|---|---|
| | **As at 31 December 2017** | **As at 31 May 2018** |
| | *RMB'000* | *RMB'000* |
| Unlisted investment, at cost | – | – |

Particulars of the Company's subsidiaries at the date of this report are as follows:

| Name of subsidiary | Place and date of incorporation/ establishment | Issued and fully paid share capital/paid-up capital | Proportion of ownership interest held by the Group | | | | | Proportion of voting rights held by the Group | | | | | Principal activities |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | At 31 December | | | At 31 May | At date of this | At 31 December | | | At 31 May | At date of this | |
| | | | 2015 | 2016 | 2017 | 2018 | report | 2015 | 2016 | 2017 | 2018 | report | |
| Huakang BVI | BVI 4 August 2017 | Issued and fully paid share capital US$1 | N/A | N/A | 100% | 100% | 100% | N/A | N/A | 100% | 100% | 100% | Investment holding |
| King Grace | BVI 22 April 2002 | Issued and fully paid share capital US$10 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | Investment holding |
| Shenzhen Huakang | The PRC 26 June 1992 | Paid-up capital US$500,000 | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | Research and development, manufacture, marketing and sale of IVD reagents and auxiliary reproductive supplies and equipment |

All the companies comprising the Group have adopted 31 December as their financial year end date. Huakang BVI is directly held by the Company and all other subsidiaries are indirectly held by the Company.

No statutory financial statements of the Company have been prepared since its date of incorporation as it is incorporated in the jurisdiction where there are no statutory audit requirements.

No statutory financial statements have been prepared for Huakang BVI and King Grace, which were incorporated in the BVI where there is no statutory audit requirements.

The statutory financial statements of Shenzhen Huakang for each of the years ended 31 December 2015, 2016 and 2017 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by 深圳國信泰會計師事務所(普通合夥), certified public accountants registered in the PRC.

## 36. RESERVES OF THE COMPANY

| | **Share premium** *RMB'000* | **Accumulated losses** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|
| At 3 August 2017 (date of incorporation) | – | – | – |
| Loss and total comprehensive expense for the period | – | (11,909) | (11,909) |
| Share allotment on 31 August 2017 *(Note 2 (iii))* | 16,667 | – | 16,667 |
| At 31 December 2017 | 16,667 | (11,909) | 4,758 |
| Loss and total comprehensive expense for the period | – | (3,012) | (3,012) |
| As 31 May 2018 | 16,667 | (14,921) | 1,746 |

## 37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows as cash flows from financing activities.

| | **Accrued issued cost** *RMB'000* | **Bank borrowings** *RMB'000* | **Amount due to Shenzhen Junxuan** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|---|
| At 1 January 2015 | – | 10,650 | 4,532 | 15,182 |
| Financing cash flows | – | (10,378) | 767 | (9,611) |
| Interest expense recognised *(Note 9)* | – | 1,278 | – | 1,278 |
| At 31 December 2015 | – | 1,550 | 5,299 | 6,849 |
| Financing cash flows | – | (723) | 858 | 135 |
| Interest expense recognised *(Note 9)* | – | 123 | – | 123 |
| At 31 December 2016 | – | 950 | 6,157 | 7,107 |
| Financing cash flows | (2,512) | (1,004) | (6,047) | (9,563) |
| Interest expense recognised *(Note 9)* | – | 54 | – | 54 |
| Accrued issued cost of new shares | 3,542 | – | – | 3,542 |
| At 31 December 2017 | 1,030 | – | 110 | 1,140 |
| Financing cash flows | (209) | – | (110) | (319) |
| Accrued issued cost of new shares | 561 | – | – | 561 |
| As 31 May 2018 | 1,382 | – | – | 1,382 |

**For the five months ended 31 May 2017 (unaudited)**

| | **Accrued issued cost** *RMB'000* | **Bank borrowings** *RMB'000* | **Amount due to Shenzhen Junxuan** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|---|
| At 1 January 2017 | – | 950 | 6,157 | 7,107 |
| Financing cash flows (unaudited) | – | (284) | (2,070) | (2,354) |
| Interest expense recognised (unaudited) | – | 34 | – | 34 |
| At 31 May 2017 (unaudited) | – | 700 | 4,087 | 4,787 |

## 38. SUBSEQUENT EVENTS AFTER REPORTING PERIOD

Subsequent to the reporting period, pursuant to the resolutions of the Company's shareholders passed on 26 November 2018, the directors of the Company have approved the issuance of **[REDACTED]** shares on 26 November 2018 standing to the credit of the share premium of the Company conditional upon the share premium account of the Company being credited as a result of the allotment and issue of the shares of the Company under the **[REDACTED]** as described in Appendix IV to the Document.

## 39. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Company, any of its subsidiaries or the Group have been prepared in respect of any period subsequent to 31 May 2018.

**[REDACTED]**

**[REDACTED]**

**[REDACTED]**

**[REDACTED]**

**[REDACTED]**

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 3 August 2017 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "**Companies Law**"). The Company's constitutional documents consist of its Memorandum of Association (the "**Memorandum**") and its Articles of Association (the "**Articles**").

## 1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

## 2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 26 November 2018 with effect from the **[REDACTED]**. The following is a summary of certain provisions of the Articles:

### (a) Shares

#### *(i) Classes of shares*

The share capital of the Company consists of ordinary shares.

#### *(ii) Variation of rights of existing shares or classes of shares*

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one

third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

***(iii) Alteration of capital***

The Company may by ordinary resolution of its members:

(i) increase its share capital by the creation of new shares;

(ii) consolidate all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

***(iv) Transfer of shares***

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

***(v) Power of the Company to purchase its own shares***

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

***(vi) Power of any subsidiary of the Company to own shares in the Company***

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

***(vii) Calls on shares and forfeiture of shares***

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump

sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

**(b) Directors**

***(i) Appointment, retirement and removal***

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re election or appointment but as between persons who became or were last re elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

(aa) he resigns by notice in writing delivered to the Company;

(bb) he becomes of unsound mind or dies;

(cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) he is prohibited from being a director by law; or

(ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

***(ii) Power to allot and issue shares and warrants***

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

***(iii) Power to dispose of the assets of the Company or any of its subsidiaries***

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

***(iv) Borrowing powers***

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

***(v) Remuneration***

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

***(vi) Compensation or payments for loss of office***

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

***(vii) Loans and provision of security for loans to Directors***

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

***(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries***

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the **[REDACTED]** or sub **[REDACTED]** of the offer;

(dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or

(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

**(c) Proceedings of the Board**

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

**(d) Alterations to constitutional documents and the Company's name**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

**(e) Meetings of members**

***(i) Special and ordinary resolutions***

A special resolution of the Company must be passed by a majority of not less than three fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

***(ii) Voting rights and right to demand a poll***

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

***(iii) Annual general meetings and general meetings requisitioned by shareholders***

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

***(iv) Notices of meetings and business to be conducted***

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

***(v) Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting)

convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class.

***(vi) Proxies***

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

**(f) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditor at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

**(g) Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

**(h) Inspection of corporate records**

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

**(i) Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

**(j) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

(ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(k) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

## 3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

### (a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

### (b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "**Court**"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

**(c) Financial assistance to purchase shares of a company or its holding company**

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

**(f) Protection of minorities and shareholders' suits**

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**(g) Disposal of assets**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j) Taxation**

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 23 August 2017.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

**(n) Register of members**

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

**(o) Register of Directors and Officers**

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

**(p) Register of Beneficial Ownership**

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The register of beneficial ownership is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares **[REDACTED]** on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the Company is **[REDACTED]** on the Stock Exchange, it is not required to maintain a register of beneficial ownership.

**(q) Winding up**

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more

persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

**(r) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

**(s) Takeovers**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**(t) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

## 4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the subsection headed "Documents Delivered to the Registrar of Companies and Available for Inspection – 2. Documents available for inspection" in Appendix V to this document. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

## A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES

### 1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 3 August 2017.

Our Company was registered in Hong Kong under Part 16 of the Companies Ordinance as a non-Hong Kong company on 3 October 2017 and our principal place of business in Hong Kong is at 2/F, 100 Des Voeux Road Central, Central, Hong Kong. Our Company has appointed Mr. Poon Lai Yin Michael as our authorised representative and agent for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, we operate subject to the Companies Law and our constitution comprising the Memorandum and the Articles. A summary of various provisions of our Company's constitution and certain relevant aspects of the Cayman Islands company law is set out in Appendix III to this document.

### 2. Changes in authorised and issued share capital of our Company

As at the date of incorporation of our Company, the authorised share capital was HK$380,000 divided into 38,000,000 Shares of HK$0.01 each. Following its incorporation, one Share, nil-paid, was allotted and issued to the first subscriber, an Independent Third Party, which was subsequently transferred to Crystal Grant on the same day.

Further on 3 August 2017, our Company allotted and issued 557 Shares, nil-paid, and 442 Shares, fully paid at par, to Crystal Grant and Ever Charming, respectively.

On 28 August 2017, our Company further allotted and issued 5,466 Shares, nil-paid, and 3,534 Shares, fully paid at par, to Crystal Grant and Ever Charming, respectively, following which our Company was owned as to 60.24% by Crystal Grant and 39.76% by Ever Charming.

All issued shares of our Company to Crystal Grant were credited as fully paid on 28 November 2017.

Pursuant to the **[REDACTED]** Subscription and Shareholders' Agreement, our Company further allotted and issued fully paid at par 1,500 Shares, 500 Shares and 500 Shares to Gallizul, Hollingberg and Hilland, at the consideration of HK$**[REDACTED]**, HK$**[REDACTED]** and HK$**[REDACTED]**, respectively, following which our Company was owned as to **[REDACTED]**% by Crystal Grant, **[REDACTED]**% by Ever Charming, **[REDACTED]**% by Gallizul, **[REDACTED]**% by Hollingberg and **[REDACTED]**% by Hilland.

Pursuant to the written resolutions of our Shareholders passed on **[REDACTED]**, the authorised share capital of our Company was increased from HK$380,000 divided into 38,000,000 Shares of HK$0.01 each to HK$10,000,000 divided into 1,000,000,000 Shares of HK$0.01 each.

Immediately following completion of the **[REDACTED]** and the **[REDACTED]**, the issued share capital of our Company will be HK$**[REDACTED]** divided into **[REDACTED]** Shares of $0.01 each, the authorised share capital of our Company will be HK$10,000,000 divided into 1,000,000,000 Shares of HK$0.01 each, all fully paid or credited as fully paid. Save as disclosed in the document, our Directors do not have any intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this document, there has been no alteration in the share capital of our Company since its incorporation.

Our Company has no founder shares, management shares or deferred shares.

**3. Written resolutions of our Shareholders passed on 26 November 2018**

Written resolutions were passed by our Shareholders on 26 November 2018 pursuant to which, among other matters:

(a) the authorised share capital of our Company was increased from HK$380,000 divided into 38,000,000 Shares of HK$0.01 each to HK$10,000,000 divided into 1,000,000,000 Shares of HK$0.01 each by the creation of an additional **[REDACTED]** new Shares of HK$0.01 each ranking *pari passu* with the existing Shares in all respects;

(b) our Company approved and adopted the Memorandum with immediate effect and the Articles which will become effective on the **[REDACTED]**, the terms of which are summarised in the section headed "Summary of the Constitution of our Company and the Cayman Islands Company Law" in Appendix III to this document; and

(c) conditional on (i) the conditions of the Listing Department granting **[REDACTED]** of, and permission to deal in, our Shares in issue and to be issued as set out in this document being fulfilled; and (ii) the obligations of the **[REDACTED]** under each of the **[REDACTED]** to be entered into between, among others, our Company and the **[REDACTED]** in connection with the **[REDACTED]** becoming unconditional and such obligations not having been terminated in accordance with the terms of the **[REDACTED]** or otherwise, in each case on or before such dates as may be specified in the **[REDACTED]**:

    (i) the **[REDACTED]** was approved and our Directors were authorised to negotiate and agree on the **[REDACTED]** for, and to allot and issue the **[REDACTED]** pursuant to the **[REDACTED]** to rank *pari passu* with the then existing Shares in all respects;

    (ii) the proposed **[REDACTED]** was approved and the Directors were authorised to implement the **[REDACTED]**;

(iii) conditional on the share premium account of our Company being credited as a result of the **[REDACTED]**, our Directors were authorised to capitalise an amount of HK$**[REDACTED]** standing to the credit of the share premium account of our Company and to apply such amount in paying up in full in total of **[REDACTED]** Shares for allotment and issue, credited as fully paid at par and rank *pari passu* in all respects with each other and the existing issued Shares (except entitlement to the **[REDACTED]**), to our Shareholders whose names appear on the register of members of our Company at the close of business on the date immediately preceding the date on which the **[REDACTED]** becoming unconditional in proportion (as nearly as possible without fractions) to their then respective shareholdings in our Company and our Directors were authorised to give effect to such capitalisation and distribution;

(iv) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with Shares or securities convertible into Shares, options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the total number of Shares to be allotted or agreed to be allotted by the Directors otherwise than pursuant to (a) a rights issue, (b) any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or (c) the exercise of any subscription or conversion rights attaching to any warrants or securities which are convertible into Shares or in issue prior to the date of passing the relevant resolution or (d) securities which are a specific authority granted by our Shareholders in general meeting, shall not exceed the aggregate of 20% of the total number of Shares in issue immediately following completion of the **[REDACTED]** and **[REDACTED]**, such mandate to remain in effect from the passing of the resolution until the earliest of (i) the conclusion of our next annual general meeting, (ii) the end of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws of the Cayman Islands to be held, and (iii) the date on which such mandate is revoked or varied or renewed by an ordinary resolution of our Shareholders (the "**Applicable Period**");

(v) a general unconditional mandate (the "**Repurchase Mandate**") was granted to our Directors to exercise all powers of our Company to repurchase Shares on GEM or on any other approved stock exchange on which the securities of our Company may be **[REDACTED]** and which is recognised by the SFC and the Stock Exchange for this purpose, with a total nominal value of not more than 10% of the total number of Shares in issue immediately following completion of the **[REDACTED]** and the **[REDACTED]**, such mandate to remain in effect during the Applicable Period; and

(vi) the general unconditional mandate mentioned in paragraph (iv) above be extended by the addition to the total number of Shares which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the total number of Shares repurchased by our Company pursuant to the Repurchase Mandate Shares referred to in paragraph (v) above provided that such extended amount shall not exceed 10% of the total number of Shares in issue immediately following completion of the **[REDACTED]** and **[REDACTED]**.

## 4. Reorganisation

Our Group underwent the Reorganisation to rationalise the Group's corporate structure in preparation for the **[REDACTED]**. For more details regarding the Reorganisation, please refer to the section headed "History and Reorganisation – Reorganisation" in this document.

## 5. Changes in share capital of our subsidiaries

The subsidiaries of our Company are listed in the Accountants' Report set out in Appendix I to this document. Save for the subsidiaries mentioned in Appendix I to this document, our Company has no other subsidiaries. Save as disclosed herein and in paragraph 4 above and in the section headed "History and Reorganisation", there has been no alteration in the share capital or registered capital of our subsidiaries within the two years immediately preceding the date of this document.

## 6. Repurchase by our Company of its own securities

### *(a) Provisions of the GEM Listing Rules*

The GEM Listing Rules permit companies with primary listing on the Stock Exchange to repurchase their own securities on GEM subject to certain restrictions, the most important of which are summarised below:

*(i) Shareholders' approval*

All proposed repurchases of securities (which must be fully paid up in the case of Shares) by a company with a primary listing on GEM must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval of specific transactions.

Pursuant to the written resolutions passed by our Shareholders on 26 November 2018, the Repurchase Mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase Shares on GEM or on any other stock exchange on which the securities of our Company may be **[REDACTED]** and which is recognised by the SFC and the Stock Exchange for this purpose, with a total nominal value up to 10% of the total number of our Shares in issue immediately following the completion of the **[REDACTED]** and the **[REDACTED]**, with such mandate to expire at the earliest of (i) the conclusion of our next annual general meeting, (ii) the

end of the period within which our Company's next annual general meeting is required by the Articles or any other applicable laws of the Cayman Islands to be held, and (iii) the date on which the resolution is varied or revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

*(ii) Source of funds*

Purchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles and the applicable laws and regulations of Hong Kong and the Cayman Islands. A listed company may not purchase its own securities on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. As a matter of Cayman law, any purchases by the Company may be made out of profits or out of proceeds of a new issue of shares made for the purpose of the purchase or from sums standing to the credit of our share premium account. Any premium payable on the purchase over the par value of the shares to be purchased must have been provided for out of profits or from sums standing to the credit of our share premium account. Subject to the Companies Law, a purchase may also be made out of the share capital of the Company.

*(iii) Trading restrictions*

A company is authorised to repurchase on GEM or on any other stock exchange recognised by the SFC in Hong Kong and the Stock Exchange the total number of shares which represent up to a maximum of 10% of the aggregate number of shares in issue of that company or warrants to subscribe for shares in that company representing up to 10% of the amount of warrants then outstanding at the date of the passing of the relevant resolution granting the repurchase mandate. A company may not issue or announce an issue of new securities of the type that have been repurchased for a period of 30 days immediately following a repurchase of securities whether on GEM or otherwise (except pursuant to the exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to the repurchase) without the prior approval of the Stock Exchange. A company is also prohibited from making securities repurchase on GEM if the result of the repurchases would be that the number of the listed securities in hands of the public would be below the relevant prescribed minimum percentage for that company as required and determined by the Stock Exchange. A company shall not purchase its shares on GEM if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on GEM.

*(iv) Status of repurchased securities*

The listing of all repurchased securities (whether on GEM or otherwise) is automatically cancelled upon the repurchase and the relevant certificates must be cancelled and destroyed. Under the Cayman Islands law, a company's repurchased shares if not held by the company as treasury shares, may be treated as cancelled and, if

so cancelled, the amount of that company's issued share capital shall be reduced by the aggregate nominal value of the repurchased shares accordingly although the authorised share capital of the company will not be reduced.

*(v) Suspension of repurchase*

A listed company shall not make any repurchase of securities at any time after inside information has come to its knowledge until the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of: (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the GEM Listing Rules) and (ii) the deadline for publication of an announcement of a listed company's results for any year or half-year under the GEM Listing Rules, or quarterly or any other interim period (whether or not required under the GEM Listing Rules) and ending on the date of the results announcement, the listed company may not repurchase its shares on GEM other than in exceptional circumstances and provided that a waiver on all or any of the restrictions under the GEM Listing Rules has been granted by the Stock Exchange. In addition, the Stock Exchange may prohibit repurchases of securities on GEM if a company has breached the GEM Listing Rules.

*(vi) Reporting requirements*

Repurchases of securities on GEM or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following trading day. In addition, a company's annual report and accounts are required to include a monthly breakdown of securities repurchases made during the financial year under review, showing the number of securities repurchased each month (whether on GEM or otherwise), the purchase price per share or the highest and lowest prices paid for all such repurchases and the total prices paid. The directors' report is also required to contain reference to the purchases made during the year and the directors' reasons for making such purchases. The company shall make arrangements with its broker who effects the purchase to provide the company in a timely fashion the necessary information in relation to the purchase made on behalf of the company to enable the company to report to the Stock Exchange.

*(vii) Core connected persons*

Under the GEM Listing Rules, a company shall not knowingly repurchase shares from a core connected person (as defined in the GEM Listing Rules) and a core connected person shall not knowingly sell his shares to the company.

***(b) Exercise of the Repurchase Mandate***

Exercise in full of the Repurchase Mandate, on the basis of **[REDACTED]** Shares in issue immediately after completion of the **[REDACTED]** and the **[REDACTED]**, could accordingly result in up to **[REDACTED]** Shares being repurchased by our Company during the course of the period prior to the earliest of:

(i) the conclusion of the next annual general meeting of our Company;

(ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles and the applicable laws and regulations of the Cayman Islands to be held; or

(iii) the revocation, variation or renewal of the Repurchase Mandate by ordinary resolution of our Shareholders in general meeting.

***(c) Reasons for repurchases***

Repurchases of Shares will only be made when our Directors believe that such a repurchase will benefit our Company and our Shareholders as a whole. Such repurchases may, depending on market conditions and funding arrangements at that time, lead to an enhancement of the net asset value of our Company and/or its earnings per Share.

***(d) Funding of repurchases***

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Memorandum and Articles, the GEM Listing Rules and the applicable laws and regulations of the Cayman Islands.

However, our Directors do not propose to exercise the general mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or its gearing levels which, in the opinion of the Directors, are from time to time appropriate for the Company.

***(e) General***

None of our Directors, to the best of their knowledge and belief, having made all reasonable enquiries, nor any of their respective close associates, has any present intention to sell any Shares to our Company or its subsidiaries if the Repurchase Mandate is approved by our Shareholders.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules, our Memorandum and Articles and the applicable laws and regulations of the Cayman Islands.

If, as a result of repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert (within the meaning under the Takeovers Code), depending on the level of increase in the interests of our Shareholder(s), could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of a repurchase of Shares made after the **[REDACTED]**. Save as aforesaid, our Directors are not aware of any other consequence under the Takeovers Code as a result of a repurchase of Shares made immediately after the **[REDACTED]**. At present, so far as is known to our Directors, no Shareholder may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code in the event that our Directors exercise the power in full to repurchase the Shares pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the GEM Listing Rules).

No connected person of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken to do so, if the Repurchase Mandate is exercised.

## B. FURTHER INFORMATION ABOUT OUR BUSINESS

### 1. Summary of our material contracts

The following contracts (not being contracts entered in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this document and are or may be material:

(a) the equity transfer agreement dated 30 August 2017, entered into between Shenzhen Junxuan and King Grace, pursuant to which Shenzhen Junxuan agreed to transfer 44% equity interest in Shenzhen Huakang to King Grace at the consideration of US$220,000;

(b) the **[REDACTED]** Subscription and Shareholders' Agreement;

(c) the deed of tax indemnity dated 31 August 2017 and a supplemental deed dated 21 February 2018, entered into among the **[REDACTED]** Investors and our Company pursuant to which, among others, our Company agreed to indemnify the **[REDACTED]** Investors from certain claims for taxation against the **[REDACTED]** Investors and/or our Company;

(d) the put option deed dated 31 August 2017, entered into among the **[REDACTED]** Investors, our Company, Crystal Grant and Ever Charming in relation to a put option granted by our Company to purchase the Shares from the **[REDACTED]** Investors;

(e) the Deed of Non-competition;

(f) the Deed of Indemnity; and

(g) the **[REDACTED]**.

## 2. Our intellectual property rights

### *(a) Trademarks*

As at the Latest Practicable Date, our Group was the registered owner of the following trademark registered in the PRC:

| No. | Trademark | Place of registration | Class | Registration number | Duration of validity | Registered owner |
|---|---|---|---|---|---|---|
| 1. | | PRC | 5 | 780094 | 7 October 2015 to 6 October 2025 | Shenzhen Huakang |

As at the Latest Practicable Date, our Group was the registered owner of the following trademark registered in Hong Kong:

| No. | Trademark | Place of registration | Classes | Trade Mark number | Duration of validity | Registered owner |
|---|---|---|---|---|---|---|
| 1. | (A) (B) | Hong Kong | 1, 5, 10, 16, 42, 44 | 304285945 | 27 September 2017 to 26 September 2027 | King Grace |

### *(b) Domain name*

As at the Latest Practicable Date, our Group has the following registered domain name:

| No. | Domain name | Registrant | Date of registration | Date of expiry |
|---|---|---|---|---|
| 1. | www.szhuakang.com | Shenzhen Huakang | 26 February 2004 | 26 February 2022 |

***(c) Patents***

As at the Latest Practicable Date, our Group is the registered owner of the following patent:

| No. | Patent | Place of registration | Types of patents | Patent number | Registration date | Expiry date | Registered owner |
|---|---|---|---|---|---|---|---|
| 1. | One kind of an ELISA kit and its preparing method for detecting liver fluke IgG4 antibodies (一種檢測肝吸蟲IgG4抗體的ELISA試劑盒及其製備方法) | PRC | Invention | ZL 2015 10644804.X | 8 October 2015 | 7 October 2035 | Shenzhen Huakang |

As at the Latest Practicable Date, our Group has applied for registration of the following patents in the PRC:

| No. | Patent | Place of application | Types of patents | Application number | Application date | Applicant |
|---|---|---|---|---|---|---|
| 1. | Specific antibody CsSP46 for detecting liver flukes and preparation method and application thereof (一種檢測肝吸蟲的特異性抗原CsSP46、其製備方法及應用) | PRC | Invention | 201510645379.6 | 8 October 2015 | Shenzhen Huakang |
| 2. | Inhibin B enzyme-linked immunosorbent assay kit and inhibin B detection method (抑制素B的酶聯免疫檢測試劑盒及抑制素B測試方法) | PRC | Invention | 201510970809.1 | 21 December 2015 | Shenzhen Huakang |

***(d) Copyright***

As at the Latest Practicable Date, our Group is the registered owner of the following copyright:

| No. | Copyright | Place of registration | Registration number | Type | Date of registration | Registered owner |
|---|---|---|---|---|---|---|
| 1. | Quality Control Software for manufacture of medical device (醫療設備生產質量控制軟件V1.0) | PRC | 2016SR211784 | 30208-2700 | 10 August 2016 | Shenzhen Huakang |

## C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

### 1. Disclosure of interests

#### *(a) Interests and short positions of Directors and chief executives of our Company in the Shares, underlying Shares or debentures of our Company and our associated corporations*

Immediately following completion of the **[REDACTED]** and the **[REDACTED]**, the interests or short positions of each of our Directors and chief executive of our Company in the Shares, underlying Shares or debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which, once **[REDACTED]**, will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which any of them is taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which, once the Shares are **[REDACTED]**, will be required to be notified to our Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules are set out as follows:

*Interests in our Company*

| | | **Immediately following the completion of the [REDACTED] and the [REDACTED]** | |
|---|---|---|---|
| **Name of Director** | **Nature of interest** | **Number of Shares** *(Note 1)* | **Percentage of shareholding** |
| Mr. Zhang | Interest in a controlled corporation; interest held jointly with another person *(Note 2)* | **[REDACTED]** (L) | **[REDACTED]**% |

*Notes:*

*Note 1:* The letter "L" denotes our Directors' long position in the Shares of our Company or the relevant associated corporation.

*Note 2:* **[REDACTED]** Shares in which Mr. Zhang is interested consist of (i) **[REDACTED]** Shares held by Crystal Grant, a company wholly owned by Mr. Zhang, in which Mr. Zhang is deemed to be interested under the SFO; and (ii) **[REDACTED]** Shares held by Ever Charming, a company wholly owned by Mr. Chang, in which Mr. Zhang is deemed to be interested as a result of being a party acting in concert with Mr. Chang.

***(b) Interests in our associated corporations***

| Name of Director | Name of associated corporation | Nature of interest | Number of shares *(Note 1)* | Percentage of shareholding |
|---|---|---|---|---|
| Mr. Zhang | Crystal Grant | Beneficial owner | 100 (L) | 100% |

*Notes:*

*Note 1:* The letter "L" denotes the long position in the shares of the associated corporation.

***(c) Interests under the SFO and disclosure of interests for substantial shareholders***

Save as disclosed in section headed "Substantial Shareholders" in this document, immediately following the completion of the **[REDACTED]** and **[REDACTED]**, our Directors or chief executive are not aware of any other person (other than a Director or chief executive of our Company) who will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Company.

***(d) Interests in Other Members of the Group***

So far as our Directors are aware, as at the Latest Practicable Date, no other persons (excluding our Company) are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

## 2. Particulars of our Directors' service contracts and remuneration

***Executive Directors***

Each of our Executive Directors has entered into a service contract with our Company commencing from the **[REDACTED]**, which has no fixed term and can be terminated by either party giving not less than three months' notice in writing to the other party. Commencing on the **[REDACTED]**, each of the Executive Directors is entitled to their respective annual remuneration set out below.

The annual remuneration of each of our Executive Directors payable under their service contracts, which is subject to annual review by the remuneration committee of the Board, would be as follows:

| **Name of Executive Director** | **Annual remuneration** *(HK$)* |
|---|---|
| Mr. Zhang | 300,000 |
| Mr. Zhang Chunguang | 300,000 |
| Mr. Poon Lai Yin Michael | 300,000 |

***Independent Non-executive Directors***

Each of the Independent Non-executive Directors, Dr. Yeung David Wai Chow, Mr. Kwok Chi Shing and Mr. Chan Kin Sang, has entered into an appointment letter with our Company for an initial term of three years commencing from the **[REDACTED]** unless terminated by either party giving not less than one month's written notice to the other party. The appointments are subject to the provisions of Articles with regards to vacation of office of Directors, removal and retirement by rotation of Directors. Each of Dr. Yeung David Wai Chow, Mr. Kwok Chi Shing and Mr. Chan Kin Sang, is entitled to a remuneration fee of HK$100,000 per annum. Save for service fees, none of the Independent Non-executive Directors is expected to receive any other remuneration for holding their respective office as an Independent Non-executive Director.

The remuneration of our Directors are determined based on the relevant Directors' experience, responsibility, workload and the time devoted to our Company.

Save as aforesaid, none of our Directors has or is proposed to have a service contract or appointment letter with our Company or any of our subsidiaries other than contracts or letters expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

**3. Directors remuneration**

(a) The aggregate amount of salaries and other benefits, discretionary bonuses, retirement benefits scheme contributions paid by our Group to our Directors (including emoluments for services as employees or directors of any member of our Group prior to their appointments as our Directors) in respect of the Track Record Period were approximately RMB330,000, RMB346,000, RMB435,000 and RMB190,000 respectively.

(b) Under the arrangements currently in force, the aggregate remuneration (excluding discretionary bonus) payable by our Group to our Directors and the benefits in kind receivable by our Directors (including the Independent Non-executive Directors in their respective capacity as Directors) for the year ended 31 December 2018 are expected to be approximately RMB627,000.

(c) None of our Directors or any past directors of any member of our Group has been paid any sum of money during the Track Record Period (i) as an inducement to join or upon joining our Group; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

(d) There has been no arrangement under which a Director has waived or agreed to waive any emoluments during the Track Record Period.

**4. Related party transactions**

Our Group was engaged in related party transactions as described in note 32 of the Accountants' Report set out in Appendix I to this document and the section headed "Connected Transaction" of this document.

**5. Disclaimers**

Save as disclosed in this document:

(a) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any Shares in or debentures of the Company within the two years ended on the date of this document;

(b) taking no account of any Shares which may be taken up under the **[REDACTED]**, so far as is known to any Director or chief executive of the Company, no other person (other than a Director or chief executive of our Company) will, immediately following completion of the **[REDACTED]** and the **[REDACTED]**, have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV

of the SFO or (not being a member of the Group), be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group;

(c) none of the Directors or chief executive of the Company has any interests or short positions in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or will be required to be notified to our Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules once the Shares are **[REDACTED]** on the Stock Exchange.

(d) none of our Directors nor any of the parties **[REDACTED]** in the paragraph headed "D. Other information – 7. Qualifications of experts" below has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to any member of our Group, or which are proposed to be acquired or disposed of by or leased to any member of our Group nor will any Director apply for the Shares either in his own name or in the name of a nominee;

(e) none of our Directors nor any of the parties **[REDACTED]** in the paragraph headed "D. Other information – 7. Qualifications of experts" below is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group;

(f) so far as is known to our Directors, none of our Directors, their respective close associates (as defined under the GEM Listing Rules) or our Shareholders who are interested in more than 5% of the issued share capital of our Company has any interest in the five largest customers or the five largest suppliers of our Group;

(g) save in connection with the **[REDACTED]**, none of the parties listed in the paragraph headed "D. Other Information — 7. Qualifications of experts" below:

  (i) is interested legally or beneficially in any securities of any member of our Group; or

  (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and

(h) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

## D. OTHER INFORMATION

### 1. Estate duty, tax and other indemnity

Our Controlling Shareholders have pursuant to the Deed of Indemnity, given indemnities on a joint and several basis in favour of our Company (for ourselves and as trustee for our subsidiaries) in connection with, among others:

(a) any taxation falling on any member of our Group (i) in respect of or by reference to any income, profits or gains earned, accrued or received or deemed or alleged to have been earned, accrued or received on or before the date on which our **[REDACTED]** becomes unconditional; or (ii) in respect of or by reference to any transaction, act, omission or event entered into or occurring or deemed to enter into or occur on or before the date on which our **[REDACTED]** becomes unconditional; and

(b) any claims, actions, demands, proceedings, judgements, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered or incurred by any member of our Group as a result of or in connection with any litigation, arbitrations, claims (including counter-claims), complaints, demands and/or legal proceedings instituted by or against any member of our Group in relation to events occurred on or before the date on which our **[REDACTED]** becomes unconditional.

Our Controlling Shareholders will however, not be liable under the Deed of Indemnity for taxation where:

(a) to the extent (if any) to which provision, reserve or allowance has been made for such taxation liabilities and claims in the audited consolidated accounts of our Company for the Track Record Period as set out in Appendix I to this document;

(b) to the extent such taxation liabilities and claims falling on any of the members of our Group in respect of or any accounting period commencing on or after 1 June 2018 and ending on the **[REDACTED]**, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily effected by, any of the members of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement or acquiescence of our Controlling Shareholders other than any such act, omission or transaction:

(i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the **[REDACTED]**; or

(ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the **[REDACTED]** or pursuant to any statement of intention made in this document; or

(c) to the extent of any provision, reserve or allowance made for such taxation liabilities in the audited accounts up to 31 May 2018 which is finally established to be an over-provision or an excessive reserve or allowance, in which case our Controlling Shareholders' liability (if any) in respect of such taxation liabilities shall be reduced by an amount not exceeding such provision, reserve or allowance, provided that the amount of any such provision, reserve or allowance applied pursuant to this paragraph to reduce our Controlling Shareholders' liability in respect of such taxation liabilities shall not be available in respect of any such liability arising thereafter and for the avoidance of doubt, such over-provision or excess provision, reserve or allowance shall only be applied to reduce the liability of our Controlling Shareholders under the Deed of Indemnity and none of the members of our Group shall in any circumstances be liable to pay our Controlling Shareholders any such excess; or

(d) to the extent that any taxation liabilities and claims arises or is incurred as a result of the imposition of such taxation liabilities as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or any other relevant authority (whether in the PRC, Hong Kong, the Cayman Islands and the BVI, or any other part of the world) coming into force after the date of the Deed of Indemnity or to the extent that such taxation liabilities and claims arise or is increased by an increase in rates of such taxation liabilities or claim after the date of the Deed of Indemnity with retrospective effect.

Pursuant to the Deed of Indemnity, our Controlling Shareholders further undertaken to indemnify on a joint and several basis in favour of our Company (for ourselves and as trustee for our subsidiaries) against all costs, expenses, liabilities, penalties, losses, damages, claims, fines, orders, or loss of profits, benefits which are or become payable or suffered by any member of our Group directly or indirectly as a result of and in connection with any non-compliances by our Group on or before the date on which the **[REDACTED]** becomes unconditional.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries under the laws of the Cayman Islands, the BVI, the PRC and Hong Kong, being jurisdictions in which one or more of the companies comprising our Group are incorporated.

## 2. Litigation

As at the Latest Practicable Date, save as disclosed in section headed "Business – Legal and Compliance – Legal Proceedings", neither our Company nor any of our subsidiaries is engaged in any litigation, arbitration or administrative proceedings of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against our Company or any of our subsidiaries, that would have a material adverse effect on the results of operations or financial condition of our Group.

### 3. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately US$7,000 and are payable by our Company.

### 4. Promoters

Our Company has no promoters for the purpose of the GEM Listing Rules.

Save as disclosed in this document, within the two years preceding the date of this document, no amount or benefit has been paid or given to any promoter in connection with the **[REDACTED]** or the related transactions described in this document.

### 5. Agency fees or commissions

Save as disclosed in the section headed "**[REDACTED]**" in this document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries within the two years ended on the date of this document.

### 6. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Department for the **[REDACTED]** of, and permission to deal in, the Shares in issue and to be issued as mentioned in this document. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

The Sole Sponsor satisfies the independence criteria applicable to sponsors as stipulated under Rule 6A.07 of the GEM Listing Rules. The Sole Sponsor's fees payable by us in respect of the Sole Sponsor's service as sponsor for the **[REDACTED]** is HK$5.0 million.

## 7. Qualifications of experts

The qualifications of the experts who have given opinions and/or whose names are included in this document are as follows:

| Name | Qualification |
|---|---|
| RHB Capital Hong Kong Limited | A licensed corporation under SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under SFO |
| Deloitte Touche Tohmatsu | Certified Public Accountants |
| Zhong Lun Law Firm | Legal advisers to our Company as to PRC laws |
| Conyers Dill & Pearman | Cayman Islands attorneys-at-law |
| China Insights Consultancy Limited | Industry consultant |

## 8. Consents of experts

Each of the experts named as referred to in the paragraph "7. Qualifications of Experts" in this Appendix has given and has not withdrawn their respective written consent to the issue in this document with the inclusion of their reports and/or letters and/or valuation and/or certificates and/or opinions and the references to their names included in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in our Group or any rights (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for securities in any member of our Group.

## 9. Binding effect

This document shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

## 10. Taxation of holders of Shares

### *(a) Hong Kong*

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

### *(b) The Cayman Islands*

Under the present laws of the Cayman Islands, there is no stamp duty payable in the Cayman Islands on transfer of Shares, save for those which hold interests in land in the Cayman Islands.

### *(c) Consultation with professional advisers*

Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares or exercising any rights attaching to them. It is emphasised that none of our Company, our Directors or the other parties involved in the **[REDACTED]** can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercising any rights attaching to them.

## 11. Miscellaneous

(a) Save as disclosed herein:

(i) within two years preceding the date of this document:

(aa) no shares or loan capital of our Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;

(bb) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries; and

(cc) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(ii) our Group has no outstanding convertible debt securities or debentures;

(iii) no founders, management or deferred shares of our Company or, any of its subsidiaries have been issued or agreed to be issued;

(iv) there is no arrangement under which future dividends are waived or agreed to be waived;

(v) none of the persons named in the paragraph headed "D. Other information — 7. Qualifications of Experts" in this Appendix is interested beneficially or otherwise in any shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of our Group;

(vi) our Director confirms that there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 24 months preceding the date of this document;

(vii) subject to the provisions of the Companies Law, the principal register of members of our Company will be maintained in the Cayman Islands by **[REDACTED]** and a branch register of members of our Company will be maintained in Hong Kong by **[REDACTED]**. Unless the Directors otherwise agree, all transfers and other documents of title of the Shares must be lodged for registration with and registered by, our Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands;

(viii) no member of our Group is presently listed on any stock exchange or traded on any trading system; and

(ix) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 May 2018 (being the date to which the latest consolidated financial statements of our Group were made up).

(b) The English version of this document shall prevail over the Chinese version.

**12. Bilingual document**

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided under section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

# APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

## 1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this document and delivered to the Registrar of Companies in Hong Kong for registration were: (a) copies of the **[REDACTED]**; (b) the written consents referred to in the section headed "Statutory and General Information – D. Other information – 8. Consents of Experts" in Appendix IV to this document; (c) copies of the material contracts referred to in the section headed "Statutory and General Information – B. Further Information about Our Business – 1. Summary of Our Material Contracts" in Appendix IV to this document.

## 2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Zhong Lun Law Firm at 4/F., Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours from 9:00 a.m. to 5:30 p.m. Monday to Friday, other than public holidays, up to and including the date which is 14 days from the date of this document:

(a) the Memorandum and the Articles;

(b) the Accountants' Report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this document;

(c) the report on the unaudited pro forma financial information of our Group prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this document;

(d) the audited consolidated financial statements of the companies now comprising our Group for FY2015, FY2016, FY2017 and the five months ended 31 May 2018;

(e) the industry report prepared by CIC, our industry consultant;

(f) the Companies Law;

(g) the letter of advice prepared by Conyers Dill & Pearman, our Cayman Islands legal advisers, summarising certain aspects of the company law of the Cayman Islands referred to in Appendix III to this document;

(h) the PRC legal opinions prepared by Zhong Lun Law Firm in respect of certain aspects of our Group and the property interests of our Group in the PRC;

(i) the material contracts referred to in the section headed "Statutory and General Information – B. Further Information about Our Business – 1. Summary of Our Material Contracts" in Appendix IV to this document;

(j) the written consents of experts referred to in the section headed "Statutory and General Information – D. Other Information – 8. Consents of Experts" in Appendix IV to this document; and

(k) the service contracts and appointment letters referred to in the section headed "Statutory and General Information – C. Further Information about Our Directors and Substantial Shareholders – 2. Particulars of Our Directors' Service Contracts and Remuneration" in Appendix IV to this document.