

Yunkang Group (2325 HK)

A leading medical operation service provider with strong operation capabilities

- Comprehensive medical operation services to meet the growing demand in diagnostic testing.** Yunkang offers a full suite of diagnostic testing services including co-development services for medical institutions and diagnostic outsourcing services for medical and non-medical institutions. In China, medical institutions usually engage medical operation service providers for diagnostic testing services, through Independent Clinical Laboratories (ICLs) and co-development diagnostic centers. According to F&S, China's medical operation service market will grow from RMB30.7bn in 2020 to RMB47.9bn in 2025 at a CAGR of 9.3%. In 2020, Yunkang had a market share of 3.7% in China's medical operation service market in terms of revenue, according to F&S.
- An early mover in building co-development medical diagnostic centers.** Since 2013, Yunkang started to jointly establish co-development diagnostic centers with lead hospitals within integrated health systems (医联体), covering medical specialties such as pathology, infectious disease and genetic disease. In 2020, Yunkang had 12.5% market share in China's diagnostic testing services for co-development medical Institutions market in terms of revenue according to F&S. We believe the COVID-19 pandemic has provided Yunkang a good opportunity to fast expand its co-development network. As of 25 Apr 2022, Yunkang is operating 322 co-development diagnostic centers (vs 132 as of end-2019), covering over 700 medical institutions.
- Strong diagnostic expertise and standardized testing capabilities.** With over 13 years of experiences, Yunkang has developed strong diagnostic expertise and standardized testing capabilities. Leveraging its six major ICLs, an outpatient clinic and a broad network of co-development diagnostic centers, Yunkang has built an expertise-driven platform with a testing menu of over 2,000 tests, which covered over 70% of major diagnostic testing categories in the medical operation service market. As the only execution partner of CLSI's healthcare business in China, Yunkang is committed to bring international standards and guidelines to China. Yunkang had a quick response to COVID-19 with its Guangzhou lab being included by the government as the first batch of medical institutions with COVID-19 nucleic acid testing capability.
- Net profit to grow at a 28% CAGR in FY21-23E.** We expect Yunkang's revenue to grow 60%/ 1%/ 3% YoY to RMB2,719mn/ RMB2,734mn/ RMB2,815mn in FY22E/ 23E/ 24E. We forecast the Company's medical co-development services will become key growth driver and will account for half of the total revenue in FY24E. We expect the Company to book attributable net profit of RMB604mn/ RMB620mn/ RMB678mn in FY22E/ 23E/ 24E.
- Initiate at BUY with TP of HK\$23.44.** We derive our target price of HK\$23.44 based on a DCF valuation (WACC: 11.9%, terminal growth rate: 2.0%).
- Risks:** Operation risks relating to service marketing; regulatory risks in obtaining licenses and permits; and competition risks.

Earnings Summary

| (YE 31 Dec) | FY20A | FY21A | FY22E | FY23E | FY24E |
|---------------------|-------|----------|----------|----------|----------|
| Revenue (RMB mn) | 1,200 | 1,697 | 2,719 | 2,734 | 2,815 |
| YoY growth (%) | 77 | 41 | 60 | 1 | 3 |
| Net income (RMB mn) | 260 | 382 | 604 | 620 | 678 |
| EPS (RMB) | N/A | N/A | 0.97 | 1.00 | 1.09 |
| YoY growth (%) | N/A | N/A | N/A | 3 | 9 |
| P/E (x) | N/A | N/A | 14.47 | 14.10 | 12.91 |
| P/B (x) | N/A | N/A | 3.57 | 3.17 | 2.79 |
| Yield (%) | N/A | N/A | 3.45 | 3.55 | 3.49 |
| Net gearing (%) | 11.19 | Net cash | Net cash | Net cash | Net cash |

Source: Company data, CMBIS estimates

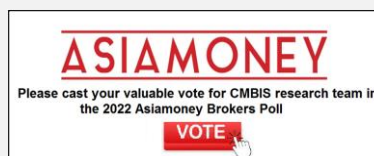
BUY (Initiation)

| | |
|---------------|-----------|
| Target Price | HK\$23.44 |
| Up/Downside | +37.24% |
| Current Price | HK\$17.08 |

China Healthcare Sector

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Stock Data

| | |
|--------------------------|------------|
| Mkt Cap (HK\$m) | 10,611 |
| Avg 3mths t/o (HK\$m) | N/A |
| 52w High/Low (HK\$) | 17.28/6.60 |
| Total Issued Shares (mn) | 621 |

Source: Bloomberg

Shareholding Structure

| | |
|---------------------------|--------|
| YK Development | 40.26% |
| Daan International | 33.77% |
| Cornerstone Investors | 6.08% |
| Other public Shareholders | 19.89% |

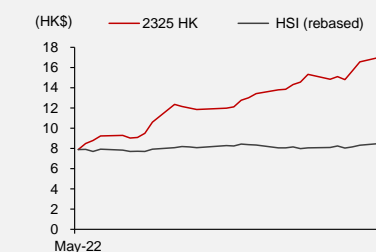
Source: Company data, post over-allotment

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 74.3% | 61.5% |
| 3-mth | N/A | N/A |
| 6-mth | N/A | N/A |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PWC
Website: www.yunkanghealth.com

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Investment Thesis

Established in Tianjin in 2008, Yunkang is a comprehensive medical operation services provider in China with a full suite of services covering medical co-development services for Co-development Medical Institutions and diagnostic outsourcing services for medical and non-medical institutions. Yunkang provides medical co-development services for hospitals within integrated healthcare systems (iHSs, 医联体) in China to help improve diagnostic capabilities, and the Company integrates the services with the daily operations of iHSs to conduct diagnostic tests and issue diagnostic reports of the samples. According to Frost & Sullivan (F&S), among all leading service providers, Yunkang ranked second in medical co-development services market with a market share of 12.5% in terms of revenue in 2020. The Company also provides diagnostic testing services for tests outsourced from medical and non-medical institutions with a market share of 3.0% in 2020 holding a leading position in the highly fragmented diagnostic outsourcing service market.

Strong diagnostic expertise and standardized testing capabilities

With over 13 years of Independent Clinical Laboratories (ICLs) operations experience, Yunkang has developed strong diagnostic expertise and standardized testing capabilities. Leveraging its six major ICLs, an outpatient clinic and a broad network of co-development diagnostic centers, Yunkang has successfully built an expertise-driven platform with a testing menu of over 2,000 tests, which covered over 70% of major diagnostic testing categories in the medical operation service market in 2020, according to F&S. The Company is constantly adopting new technologies for diagnostic testing, encompassing all major clinical laboratory technology platforms, including immunological detection, mass spectrometry, PCR, high-throughput sequencing, liquid chip, ultra-micro pathological morphology and digital pathology remote diagnosis.

Yunkang has gained widespread industry recognition for its diagnostic testing services, reflecting its market leading position and competitiveness. As the only execution partner of CLSI's healthcare business and the only branch office of CLSI in China, Yunkang is committed to bring international standards and guidelines to medical institutions in China. Besides, the Company has obtained accreditation from the American Society for Clinical Pathology, and according to F&S, Yunkang has the largest number of ICLs in China that hold both ISO15189 and CAP certifications, which reflects its high level of quality and technical capability.

Innovative co-development business model

As part of the healthcare reforms in the past decade, integrated healthcare systems were introduced to help medical institutions share and allocate medical resources efficiently. Many hospitals within the integrated healthcare systems require medical co-development services to support their operations and build their capabilities. As one of the first batch of companies which realized the emerging medical needs, by utilizing its professional and standardized diagnostic outsourcing services, Yunkang initially started to co-develop medical diagnostic centers for medical institutions within iHSs in 2013.

Yunkang's services are supported by six operating modules, namely, overall business planning, quality control, hierarchical diagnosis and treatment, marketing, smart logistics and supply chain, based on which Yunkang is able to provide modularized medical co-development services to meet each hospital's specific needs, while maintaining efficient and standardized day-to-day operation. Through standardized processes and workflows offered by Yunkang, customers can enhance their technical capabilities, operational management and quality control, enabling them to scale up their operations and achieve standardization.

The number of co-developed diagnostic centers Yunkang collaboratively built increased quickly over the past years, showing the success of the Company's business model. The number of Yunkang's co-developed diagnostic centers increased from 79 as of year-end 2018 to 275 as of year-end 2021,

growing at a CAGR of 51.6%. As of 25 Apr 2022, Yunkang has penetrated into 20 provinces and autonomous regions in China, with a total of 322 diagnostic centers in operation.

Driven by the growing number of integrated healthcare systems, the increasing number of hospitals joining integrated healthcare systems, and the favorable government policies, the total market size of diagnostic testing services for Co-development Medical Institutions in China is expected to maintain a strong growth momentum.

Loyal customer network with broad nationwide coverage

The success of Yunkang business model is evidenced in Company's broad and loyal network of medical institution customers. Through Yunkang's ICLs and served iHSs, the Company's network covered over 700 medical institutions via medical co-development services and over 3,200 customers in 31 provinces in China primarily consisting of hospitals and other medical institutions via diagnostic outsourcing services. Yunkang's customers also consist of certain non-medical institution clients, including financial institutions and insurance companies. By offering highly standardized and global caliber services to and closely collaborating with customers, Yunkang has enjoyed strong customer loyalty and stickiness, with many of the major customers having worked with the Company for over five years, and almost all the clients renewing contracts at expiration over the recent years.

Growing portfolio of diagnostic capabilities

Yunkang is constantly adopting new technologies for diagnostic testing, encompassing all major clinical laboratory technology platforms, including immunological detection, mass spectrometry, PCR, high-throughput sequencing, liquid chip, ultra-micro pathological morphology and digital pathology remote diagnosis. Yunkang plans to expand its portfolio of diagnostic capabilities, in particular, for tumors, genetic diseases, infectious diseases and pharmacogenetics. Yunkang also endeavors to work with hospitals to provide precision medicine solutions to patients. In order to further enhance its platform capabilities, Yunkang is open to consider to acquire or invest in companies that have synergistic businesses, such as upstream companies engaged in advanced diagnostic techniques, molecular biology, biotechnology and their clinical applications.

Initiate at BUY with TP of HK\$23.44

We expect Yunkang's revenue to grow 60%/ 1%/ 3% YoY to RMB2,719mn/ RMB2,734mn/ RMB2,815mn in FY22E/ 23E/ 24E. We forecast the Company's medical co-development services will become a key growth driver and will account for half of the total revenue in FY24E. We expect the Company to book attributable net profit of RMB604mn/ RMB620mn/ RMB678mn in FY22E/ 23E/ 24E. We derive our target price of HK\$23.44 based on a DCF valuation (WACC: 11.9%, terminal growth rate: 2.0%).

Investment risks

- 1) Operation risk relating to service marketing;
- 2) Regulatory risk in obtaining licenses and permits;
- 3) Competition risks.

Building a comprehensive medical operation services platform

Strong diagnostic expertise and standardized testing capabilities

Established in Tianjin in 2008, Yunkang is one of the most comprehensive medical operation services platforms in China, according to Frost & Sullivan (F&S), offering a full suite of diagnostic testing services covering co-development services for Co-development Medical Institutions and diagnostic outsourcing services for medical and non-medical institutions. Yunkang is deeply rooted in the medical operation services market in China. The Company is one of the ten largest market players in the medical operation service market in China, with a market share of 3.7% in terms of revenue in 2020 according to F&S.

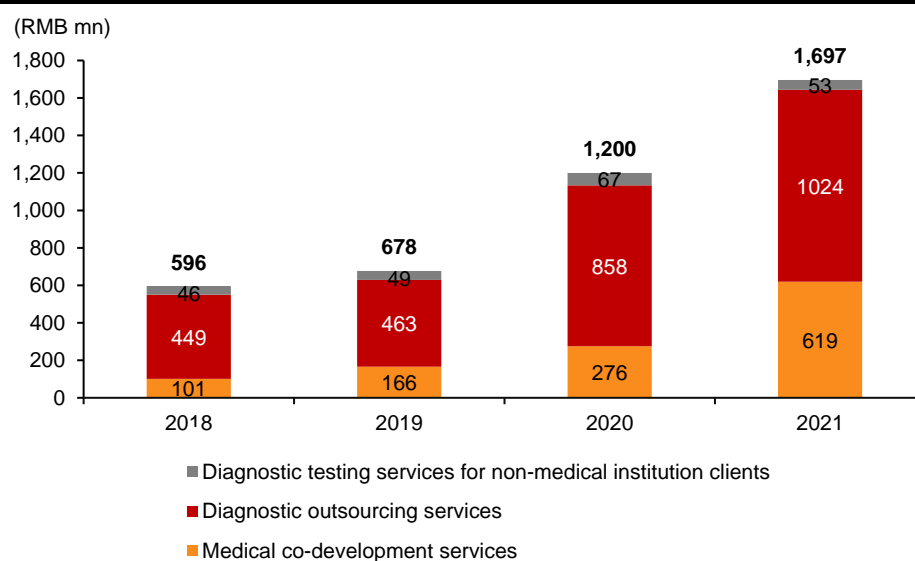
Yunkang provides medical co-development services for hospitals within integrated healthcare systems (iHSs, 医联体) in China to help hospitals improve their diagnostic capabilities. Through co-developed diagnostic centers, Yunkang integrates its services with the daily operations of integrated healthcare systems to conduct diagnostic tests and issue diagnostic reports of the samples. The integrated healthcare systems will improve their economics by conducting more diagnostic tests and focusing medical resources on appropriate patients. Yunkang is one of the leading providers of medical co-development services in China with a market share of 12.5% in terms of revenue in 2020, according to F&S.

In addition, Yunkang also provides diagnostic outsourcing testing services for tests outsourced by medical institutions and, to a lesser extent, for non-medical clients. In 2020, Yunkang had a market share of 3.0% in China's diagnostic outsourcing service market in terms of revenue, according to F&S.

Figure 1: Major services provided by Yunkang



Source: Company data, CMBIS

Figure 2: Company revenue breakdown by segments (2018-2021)

Source: Company data, CMBIGM

Figure 3: Major milestones of Yunkang

| Year | Event |
|------|--|
| 2008 | Yunkang Industry was established in Tianjin, with Guangzhou and Shanghai ICLs. |
| 2010 | Yunkang built up an ICL service network covering Guangdong, Shanghai, Sichuan, Anhui, Jiangxi and Yunan through six ICLs. |
| 2013 | Yunkang cooperated with the CLSI and commenced the construction of the quality and technical standard guidance system. |
| 2014 | Yunkang undertook the "Technology Benefiting the People Project" (科技惠民计划) of the Ministry of Science and Technology and constructed the model system of graded diagnosis and treatment of Guangdong Province. |
| 2015 | Yunkang was approved as a national pilot for clinical application of high-throughput gene sequencing. The Company led the construction of the national genetic testing demonstration center. |
| 2018 | Yunkang took the lead in undertaking the "2018 Internet Plus, artificial intelligence innovation and development and digital economy pilot major projects" (2018年“互联网+”、人工智能创新发展和数字经济试点重大工程) of the NDRC and established a digital economy industry innovation center. |
| 2018 | The Company was incorporated in the Cayman Islands. |
| 2020 | Yunkang was recognized by relevant authorities as the core participant of the national nucleic acid testing for the COVID-19. |
| 2022 | Yunkang was listed on the Main Board of the Hong Kong Stock Exchange. |

Source: Company data, CMBIGM

As early as 2008, Yunkang started to offer standardized diagnostic outsourcing services by performing diagnostic testing and conducting results analyses based on test samples provided by hospitals and other medical institutions. With over 13 years of Independent Clinical Laboratories (ICLs) operations experience, Yunkang has developed strong diagnostic expertise and standardized testing capabilities. Leveraging its six major ICLs, an outpatient clinic and a broad network of co-development diagnostic centers, Yunkang has successfully built an expertise-driven platform with a testing menu of over 2,000 tests, which covered over 70% of major diagnostic testing categories in the medical operation service market in 2020, according to F&S. The Company is constantly adopting new technologies for diagnostic testing, encompassing all major clinical laboratory technology platforms, including

immunological detection, mass spectrometry, PCR, high-throughput sequencing, liquid chip, ultra-micro pathological morphology and digital pathology remote diagnosis.

Yunkang has gained widespread industry recognition for its diagnostic testing services, reflecting its market leading position and competitiveness. Yunkang's Guangzhou laboratory is one of the few organizations in China recognized as a National Genetic Testing Technology Application Demonstration Centre (国家基因检测技术应用示范中心) by the NDRC. Its Guangzhou and Shanghai laboratories had passed the National Tumor Somatic Mutation High-sequencing Bioinformatics Detection Quality Evaluation (全国肿瘤体细胞突变高通量测序检测生物信息学分析室间质量评价统计结果) organized by the National Center for Clinical Laboratories (国家卫生健康委临床检验中心) in August 2020. Yunkang's Guangzhou laboratory was also among the first batch of laboratories to be appointed as high-throughput sequencing pilot centres for pre-natal and pathological testing and diagnosis projects by Chinese National Health Commission. The Guangzhou laboratory was named as a biopharmaceutical engineering technology research centre (医药生物工程技术研究中心) by Chinese Ministry of Health and a joint engineering laboratory of the NDRC. Moreover, Yunkang has one of the pilot centres in China for the implementation of the new Pharmaceutical Cold Chain Logistics Industry Standard (药品冷链物流运作规范).

Yunkang is committed to bring international standards and guidelines to medical institutions in China. By helping hospitals establish international quality standards in diagnostic testing, Yunkang achieved the rapid and scalable growth of its business. Yunkang is the only execution partner of CLSI's healthcare business and the only branch office of CLSI in China, implying its international standards and recognition. CLSI is a globally recognized not-for-profit standards development organization, whose standards are recognized by laboratories, accreditors and government agencies globally to improve medical laboratory testing. The Company is also the first and only company in China to participate in promoting the standards of China Grassroots Medical Laboratory Quality and Capability Standards Handbook (《中国基层医学实验室质量与能力标准手册》) with CLSI, in order to advance the quality of grassroots medical care and promote the adoption of international standards, and in turn increase the overall recognition and capability of grassroots medical institutions in China to achieve optimal patient and resource allocation. Besides, the Company has obtained accreditation from the American Society for Clinical Pathology, the leading organization for pathology globally according to F&S. Yunkang's operations meet ISO quality standards, reflecting the international-level quality and global recognition of its diagnostic results. According to F&S, Yunkang has the largest number of ICLs in China that hold both ISO15189 and CAP certifications, which reflects its high level of quality and technical capability.

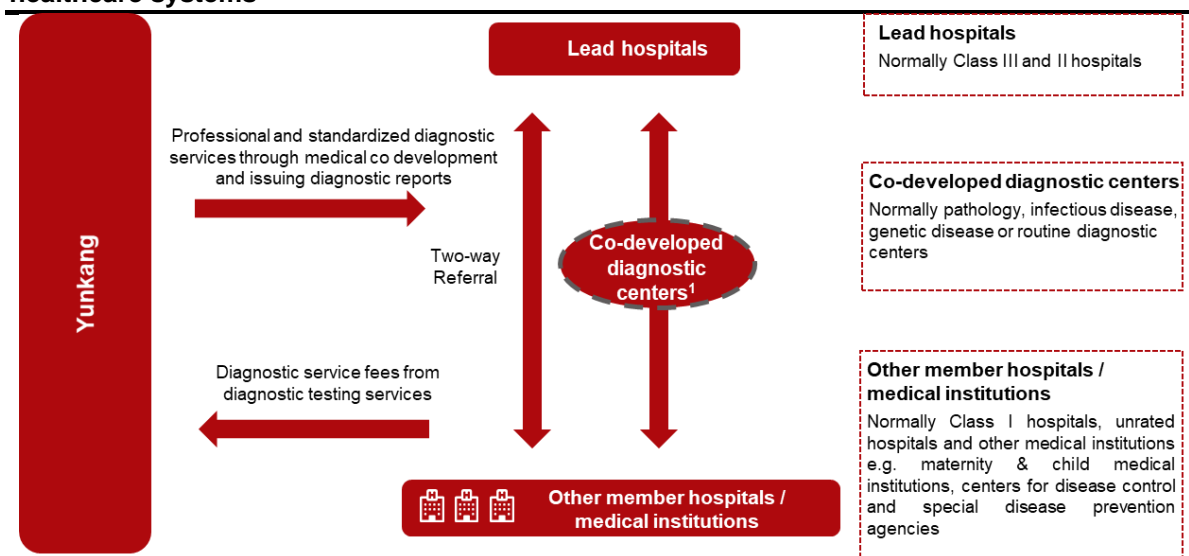
Innovative co-development business model

In the past decade, the Chinese government adopted a series of healthcare reform measures to address the uneven distribution of medical resources in China. As part of the healthcare reforms, integrated healthcare systems were introduced. Integrated healthcare systems are regional healthcare systems that can share and allocate medical resources efficiently among different medical institutions within the system. Many hospitals within the integrated healthcare systems require medical co-development services to support their operations and build their capabilities.

Observing these emerging medical needs and leveraging its experiences in providing professional and standardized diagnostic outsourcing services, Yunkang started to co-develop medical diagnostic centers with member hospitals and other medical institutions within the integrated healthcare systems in 2013, being one of the first batch of companies to provide such services according to F&S. Through these medical co-developed diagnostic centers, the Company guides medical institutions to develop and manage centers that meet international quality and technical standards in areas of clinical laboratory testing and telepathology.

Such business model enables the Company to address the needs of key stakeholders in the healthcare system, from medical institutions at all levels in China to develop their diagnostic capabilities and reallocate medical resources with the potential to improve their economics by conducting more diagnostic tests and focusing medical resources on appropriate patients, to the government in implementing healthcare reforms, and to patients that seek better quality and accessible healthcare services. Addressing these needs and integrating services with the operation of the integrated healthcare systems instead of a single hospital will enhance the satisfaction of member hospitals and other medical institutions, which in turn, increases customer loyalty, enables the Company to develop a sustainable and growing business network, and help integrated healthcare systems to expand their regional coverage by increasing the number of their member hospitals.

Figure 4: Yunkang’s business model of medical co-development services for integrated healthcare systems



Source: Company data, CMBIGM; Note: In normal cases, co-developed diagnostic centers are owned and operated by lead hospitals

Yunkang’s services are supported by six operating modules, namely, overall business planning, quality control, hierarchical diagnosis and treatment, marketing, smart logistics and supply chain, based on which Yunkang is able to provide modularized medical co-development services to meet each hospital's specific needs, while maintaining efficient and standardized day-to-day operation. Through standardized processes and workflows offered by Yunkang, customers can enhance their technical capabilities, operational management and quality control, enabling them to scale up their operations and achieve standardization.

The number of co-developed diagnostic centers Yunkang collaboratively built increased quickly over the past years, showing the success of the Company’s business model. The number of Yunkang’s co-developed diagnostic centers increased from 79 as of year-end 2018 to 275 as of year-end 2021, growing at a CAGR of 51.6%. As of 25 Apr 2022, Yunkang has penetrated into 20 provinces and autonomous regions in China, with a total of 322 on-site diagnostic centers in operation, covering over 700 medical institutions. The Company is also expanding its presence in smaller cities and regions to cover more grassroot medical institutions, and has established representative offices with specialized personnel to rapidly respond to customer needs in 11 cities nationwide.

Yunkang plans to further expand its co-development business. As of 25 Apr 2022, there were a total of 38 ongoing medical co-development projects with hospitals, which had not yet commenced operation. For certain hospitals that do not currently have diagnostic capabilities, Yunkang intends to help them improve laboratories and help them manage and operate such laboratories. Over the next

few years, the Company plans to primarily focus on co-developing pathology, genetic and infectious disease laboratories for integrated healthcare systems.

Driven by the growing number of integrated healthcare systems, the increasing number of hospitals joining integrated healthcare systems, and the favorable government policies, the total market size of diagnostic testing services for Co-development Medical Institutions in China is expected to maintain a strong growth momentum, increasing from RMB2,200.9mn in 2020 to RMB5,903.4mn in 2025, representing a CAGR of 21.8% in 2020-2025, according to F&S.

Loyal customer network with broad nationwide coverage

Through self-operated ICLs and co-developed diagnostic centers with hospitals, Yunkang provides services to a broad network of medical institutions in China. The Company's customer network covered 31 provinces and autonomous regions, with the majority of such hospitals located in Guangdong province, where the Company's headquarters are located. As of 25 Apr 2022, the Company served 322 integrated healthcare systems, covering over 700 medical institutions across 20 provinces and autonomous regions in China.

Yunkang also actively grows its network in the specialty areas of infectious diseases, tumors, genetics and reproduction. As its COVID-19 testing business grows, Yunkang aims to rapidly scale up co-developed infectious disease diagnostic centers in light of the significant market demand and build the largest infectious disease diagnostic network in China.

By offering standardized and high caliber services to and closely collaborating with customers, Yunkang has enjoyed strong customer loyalty and stickiness. As of Apr 2022, over 60% of major diagnostic outsourcing service customers have been doing business with Yunkang for five years or more. Yunkang generally signs three to five years contracts with medical co-development service customers, reflecting their long-term commitment.

Through Yunkang's intelligent technology systems, which are specifically designed for medical co-development services, the Company is able to track the active users of services in real time and provide timely services, especially by connecting directly with its customers' test equipment, which has also enhanced customer loyalty.

Growing portfolio of diagnostic capabilities

Yunkang's diagnostic testing portfolio for medical co-development and diagnostic outsourcing services primarily covers therapeutic areas such as pathology tests, infectious disease diagnostic tests, genetic disease diagnostic tests, routine diagnostic tests, etc.

Pathology tests: Pathology tests primarily aim to discover and understand the nature of tumor. According to F&S, the number of newly confirmed cancer cases in China increased from approximately 4.1mn in 2016 to approximately 4.6mn in 2020 and will reach approximately 5.2mn in 2025. Pathology tests are crucial for physicians to better understand the pathological condition of each patient, so that they can design the most suitable treatment plan.

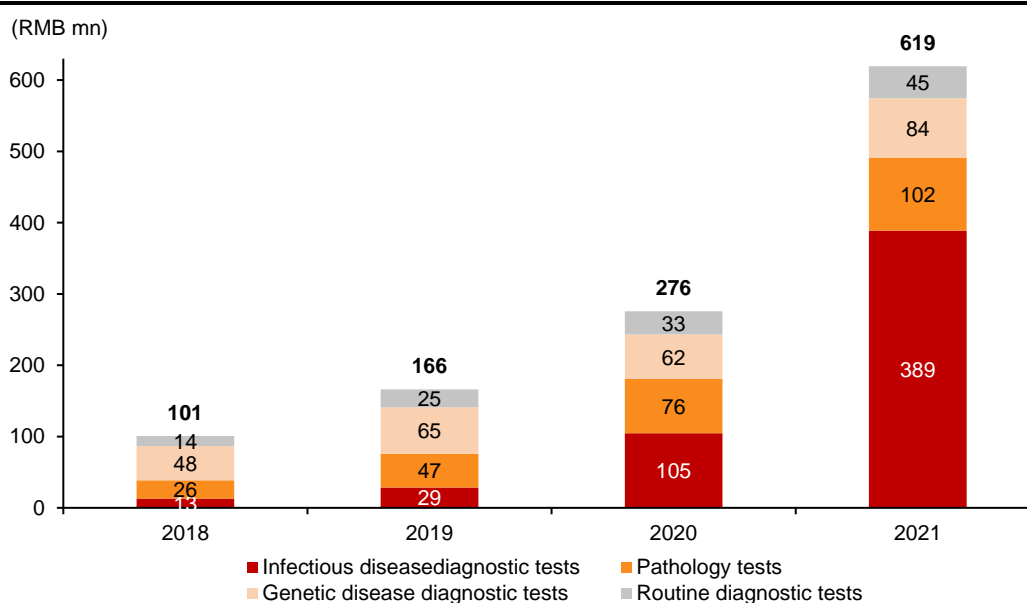
Infectious disease diagnostic tests: With the growing awareness of infectious diseases, Yunkang has gradually built up its service offerings for over 20 categories of infectious disease diagnostic tests, including hepatitis B virus, tuberculosis, human papilloma virus, EB virus, rabies virus and nucleic acid tests for respiratory pathogens (including COVID-19 virus), among others. In particular, COVID-19 testing has rapidly become a norm in daily life, as it is required for those in close contact with confirmed COVID-19 cases, those engaging international and cross regional travel, and those having been exposed in high-risk environments, such as airport employees and international courier staff. Yunkang started to offer COVID-19 testing (nucleic acid testing) as early as Jan 2020. Its Guangzhou laboratory

was included by the Guangdong Provincial Health Commission (广东省卫生健康委) in the first batch of medical institutions with the COVID-19 nucleic acid testing capability.

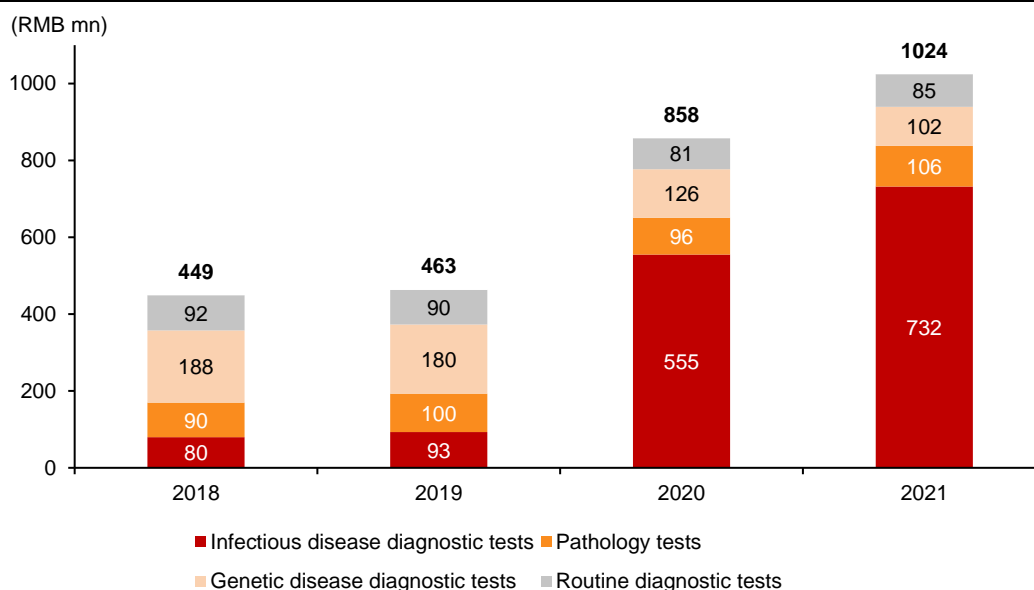
Genetic disease diagnostic tests: Genetic disease diagnostic tests cover a wide range of genetic reproduction tests and screening tests. According to F&S, the Chinese government aims to increase the testing capacity of genetic reproduction tests to cover more than 50% of new birth populations in China by 2022. Therefore, the demand for genetic reproduction testing will continue to grow in the foreseeable future. Yunkang offers genetic screening tests at pre-pregnancy, pregnancy and new-born stages. Genetic disease diagnostic tests aim to help hospitals establish genetic pathology data for each patient so that they can design the most suitable treatment plan for the patient, and detect and prevent infectious disease and hereditary birth defects at pre-pregnancy and pregnancy stages.

Routine diagnostic tests: Yunkang also provides certain routine diagnostic tests for chronic kidney disease, blood disease, autoimmune disease and endocrine metabolism disease.

Figure 5: Revenue breakdown of Yunkang’s medical co-development services (2018-2021)



Source: Company data, CMBIGM

Figure 6: Revenue breakdown of Yunkang's diagnostic outsourcing services (2018-2021)


Source: Company data, CMBIGM

Furthermore, Yunkang has adopted new technologies for diagnostic testing and has established seven technology platforms.

Immunological detection technology platform: Various immune-labeling technologies based on antigen-antibody specific reactions are used to detect infectious diseases, autoimmune diseases, prenatal and postnatal care, allergic diseases and tumor biomarkers.

Mass spectrometry technology platform: Ultra-performance liquid chromatography tandem mass spectrometry (UPLC-MS/MS), gas chromatography-mass spectrometry (GC-MS), inductively coupled plasma mass spectrometer (ICP-MS), matrix-assisted laser desorption ionization-time of flight mass spectrometry (MALDI)-TOF MS) and other technologies are used to perform genetic and metabolic disease detection, drug concentration detection, hormone and neurotransmitter detection, vitamin and organic acid determination, nutrient and toxic element determination, and microbial identification, among other things.

PCR technology platform: A variety of nucleic acid detection technologies based on are used for genetic disease detection, molecular diagnosis of infectious diseases, individualized tumor treatment, drug gene detection, drug resistance gene detection and short tandem repeat detection, among other things.

High-throughput sequencing technology platform: Based on high-throughput sequencing technology and biological information analysis to conduct non-invasive prenatal screening, single-gene genetic disease carrier screening, genetic disease detection, individualized tumor treatment and infectious disease detection, among other things.

Liquid chip technology platform: Suspension liquid chip technology is used in genetic disease detection, infectious disease detection, tumor gene mutation detection, among other things.

Ultra-micro pathological morphology technology platform: By preparing ultramicro pathological materials and observing and diagnosing the ultra-microstructure of the specimen under a scanning electron microscope, the platform is used for organ biopsy ultra-micro pathological diagnosis, tumor

differential diagnosis, neuromuscular disease diagnosis and pathogen search in infectious diseases, etc.

Digital pathology remote diagnosis platform: Utilizing digital slice scanning technology, web-image browsing and other technologies to digitize traditional pathological slices and perform remote pathological diagnosis, hold discussions for rare cases and conduct remote pathology teaching through the internet.

Yunkang plans to expand its portfolio of diagnostic capabilities, in particular, for tumors, genetic diseases, infectious diseases and pharmacogenetics. With respect to these areas, the Company plans to continue to enhance its diagnostic testing technologies, upgrade equipment and recruit more personnel. In addition, the Company plans to market its services to more non-medical institution customers, such as corporations and government agencies, enhancing its ability to provide omniscenario medical operation services for customers.

Yunkang also endeavors to work with hospitals to provide precision medicine solutions to patients. The Company believes that precision medicine will be a growing trend in the healthcare industry as more and more patients seek customized medical solutions. By leveraging its experiences in diagnostic testing, Yunkang plans to enhance its genetic and pathology testing capabilities for oncology patients at the first step in capturing the market opportunity of precision medicine.

In order to further enhance its platform capabilities, Yunkang is open to consider to acquire or invest in companies that have synergistic businesses, such as upstream companies engaged in advanced diagnostic techniques, molecular biology, biotechnology and their clinical applications.

Yunkang's comprehensive service portfolio

According to F&S, Yunkang is the most comprehensive medical operation services platform and a leading provider of medical co-development services for integrated healthcare systems in China. Yunkang's service portfolio mainly includes three major business lines: (1) medical co-development services, (2) diagnostic outsourcing services, and (3) diagnostic testing services for non-medical institution clients.

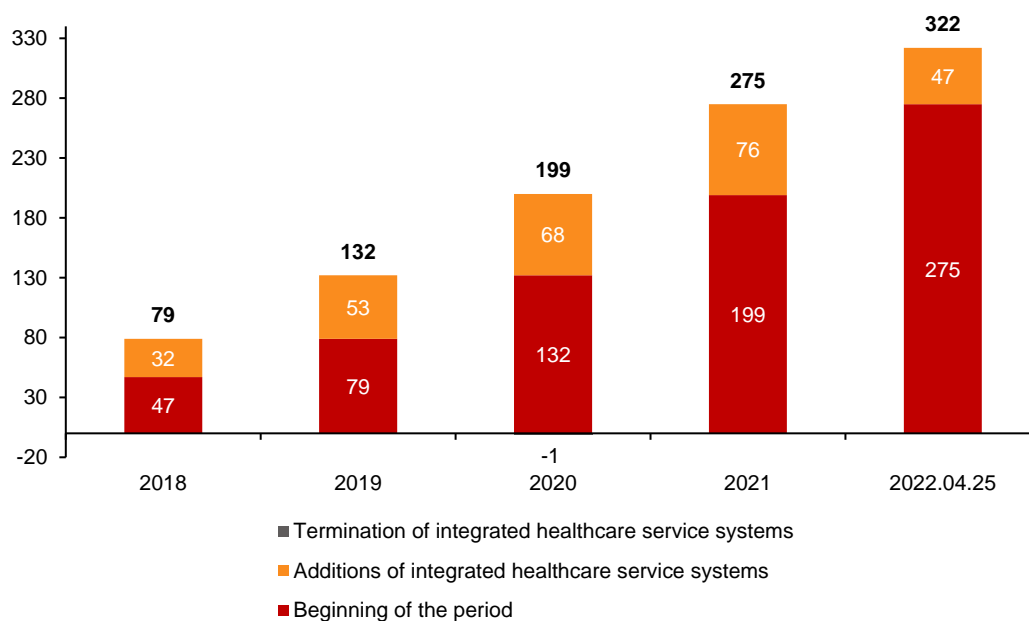
Medical co-development services experienced fast growth

Yunkang offers medical co-development services to hospitals and other medical institutions within integrated healthcare systems to improve their diagnostic capabilities and capacities through co-developed diagnostic centres. Yunkang integrates its services with the daily operations of integrated healthcare systems by assisting them with equipment procurement, department design and protocol standardization, and expertise build-up and training for diagnostic tests. In addition, if the hospital does not have sufficient diagnostic capability, Yunkang can also help establish and gradually build up its diagnostic operations. Relying on the medical co-development services, member hospitals can offer diagnostic services to patients and direct patients to appropriate hospitals, with the potential to improve their economics by conducting more diagnostic tests and focusing medical resources on appropriate patients.

Yunkang's co-development business is actively growing in the four therapeutic categories, namely infectious diseases, pathology, genetic disease and routine diagnostics. As the COVID-19 testing business grows, Yunkang is trying to rapidly scale up co-developed infectious disease diagnostic centers in light of the significant market demand.

The Company's revenue from medical co-development services maintained a strong growth momentum over the past years, increasing from RMB100.8mn in 2018 to RMB166.1mn in 2019 (+65% YoY). As a result of the increase in infectious disease diagnostic tests, especially COVID-19 tests, revenue from medical co-development services further increased to RMB275.8mn in 2020 (+66% YoY). For the same reason, and as demand for genetic disease diagnostic tests grew with recovery from COVID-19 pandemic and the expansion of two of the Company's genetic disease diagnostic centers, the Company's revenue from medical co-development services further increased to RMB619.4mn in 2021 (+125% YoY).

In 2018, 2019, 2020 and 2021, Yunkang served 79, 132, 199 and 275 integrated healthcare systems, respectively. As of 25 Apr 2022, the Company served 322 integrated healthcare systems, covering over 700 medical institutions across 20 provinces and autonomous regions in China.

Figure 7: Number of served integrated healthcare systems (2018 - Apr 2022)


Source: Company data, CMBIGM

Yunkang generally signs a contract with the lead hospitals in the integrated healthcare systems ranging from three to five years, and provides credit terms to member hospitals ranging from one to three months. Most of Yunkang's service and co-development agreements contain an automatic renewal clause, pursuant to which the contract shall be automatically renewed for the same period upon expiry. As of 31 Dec 2021, among the 275 integrated healthcare systems Yunkang served, service and co-development contracts with 68 of them will expire in 2022. In 2018, 2019, 2020 and 2021, 3, 3, 19 and 39 service and co-development agreements were expired, respectively. Yunkang successfully renewed all the contracts over the four years, except for one contract in 2020, which the hospital did not renew after expiry as it was solely for the purpose of carrying out COVID-19 tests in Wuhan when the pandemic was at its peak in Wuhan. The Company had not experienced any early-termination of service and co-development agreement with any medical institution.

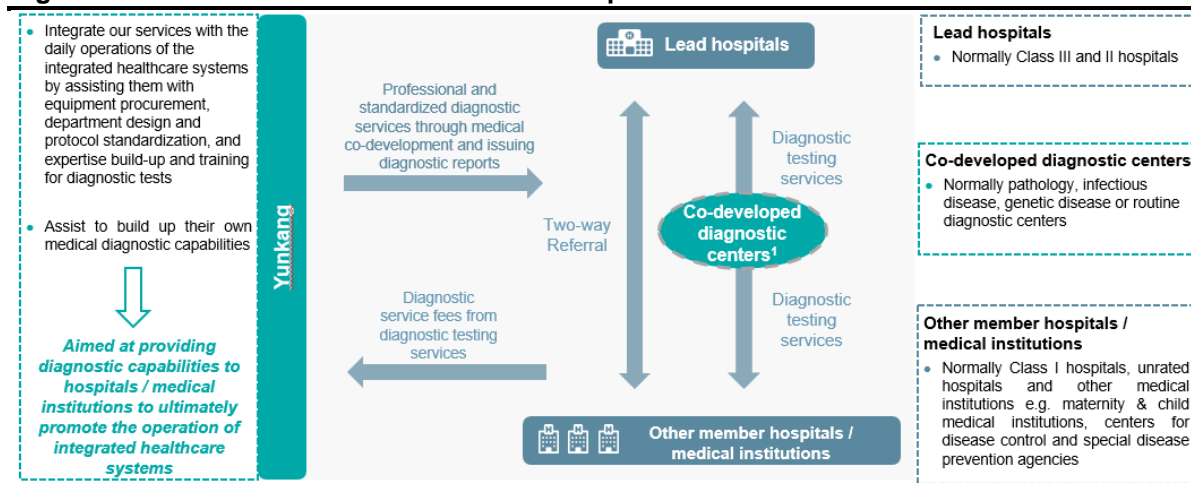
Innovative business model of medical co-development services

Yunkang jointly sets up a co-developed diagnostic center with a lead hospital, normally a Class III or Class II hospital, within an integrated healthcare system. As an industry norm, Yunkang generally provides a wide range of services to hospitals including assistance for equipment procurement, department design and protocol standardization, expertise training and development. The Company also assists medical institutions to perform diagnostic tests at co-developed diagnostic centers. In addition, if the co-development diagnostic centre does not have sufficient diagnostic capability or is not capable of performing certain diagnostic tests, Yunkang can also provide diagnostic testing services through its ICLs. In return, Yunkang charges medical institutions for diagnostic testing services based on the number of diagnostic tests performed (both by the co-development diagnostic centers and by Yunkang's ICLs). Yunkang only generates revenue from diagnostic testing performed but does not generate revenue directly from the technical services provided.

Yun Kang provides these services integrated as a service package to medical institutions based on their needs under the co-development business model. This integrated service package is important for the integrated healthcare systems because many of the medical institutions within the integrated healthcare systems do not have sufficient or comprehensive expertise in diagnostic testing and therefore need the support of medical co-development service providers in relation to the provision of

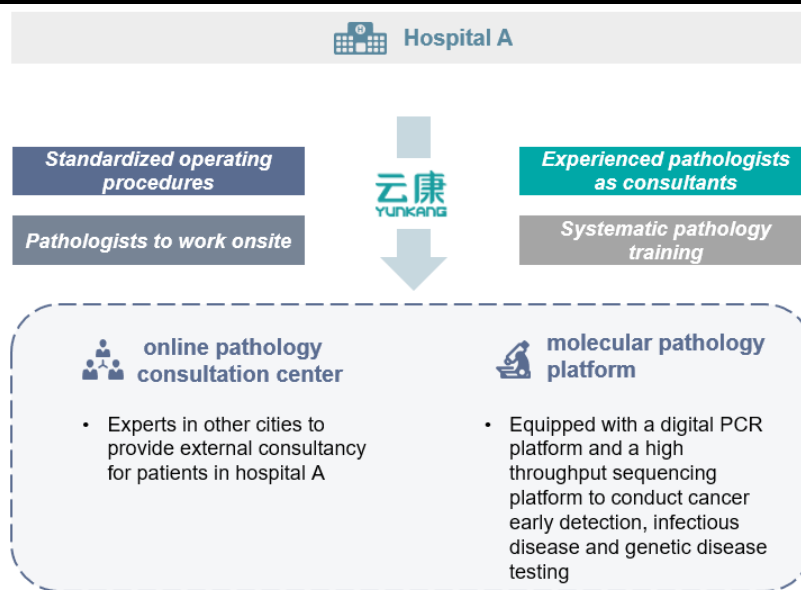
testing equipment, staff training, on-site testing expertise and establishment of standardized procedures and protocols, as well as assistance in the logistics of testing samples. As a result of its involvement, Yunkang is also responsible for issuing diagnostic reports to the lead hospital. For other member hospitals or medical institutions within the integrated healthcare system, which are usually Class I hospitals or unrated hospitals, they can also enjoy the diagnostic testing services from the co-developed diagnostic center, or from the Company’s ICL, and they may choose to settle the diagnostic service fees directly with Yunkang or through the lead hospital.

Figure 8: Business model of medical co-development services



Source: Company data, CMBIGM; Note: 1. In normal cases, co-developed diagnostic centers are owned and operated by lead hospitals

A case study for co-developed existing diagnostic and pathology operation is summarized as follows. Yunkang entered into a service and collaboration agreement with Hospital A, which is a Class III hospital, in June 2019. Hospital A aims to improve its pathology health service quality and recruit sufficient professionals to support its operation. Under the agreement, Yunkang is obligated to establish a diagnostic and pathology operation with an online pathology consultation center and a molecular pathology platform. The online pathology consultation center allows experts in other cities to provide external consultancy for patients in Hospital A. The molecular pathology platform will be equipped with a digital PCR platform and a high throughput sequencing platform to conduct cancer early detection, infectious disease and genetic disease testing. Yunkang is also required to establish standard operating procedures, arrange at least three pathologists to work onsite, hire 10 experienced pathologists as consultants and provide systematic pathology training. The agreement has a term of five years.

Figure 9: Case study: co-developed existing diagnostic and pathology operation


Source: Company data, CMBIGM

Yun Kang provides comprehensive solutions to member hospitals in integrated healthcare systems, by assisting them with the following services:

(1) Setting-up or upgrading diagnostic centers. Yunkang usually helps build up a diagnostic center in one of its four focused therapeutic areas. The Company also provides one to seven technicians to work at the co-development center, and in the meantime, the medical institution will have one to seven personnel working at the co-development center. If the member hospitals do not have sufficient capabilities to perform certain diagnostic tests, Yunkang will provide expertise in diagnostic technologies, on-site staff, IT systems and test equipment as appropriate to assist the member hospitals to perform or upgrade the diagnostic testing services.

(2) Establishment of standard operating procedures. Leveraging its knowledge of national and international diagnosis standards, Yunkang helps member hospitals to establish standard operating procedures to enhance their operating efficiency and quality management in diagnostic testing.

(3) Diagnostic consultation and staff training. Yunkang offers onsite training and seminars to member hospital staff. The Company has also established an online consultation platform, under which customers may upload patients' pathological reports onto the platform. Yunkang has engaged external pathologists to review these reports online to provide pathology guidance for hospitals and patients. Yunkang normally enters into consultation service agreements with these pathologists for fixed period ranging from one to three years. The Company engaged a total number of 46, 61, 87 and 90 pathologists as of 31 Dec 2018, 2019 and 2020 and 2021, respectively.

(4) Procurement of equipment. Yunkang helps member hospitals procure upgraded or new test equipment to meet the increasing diagnostic demands and enhance their testing capabilities. Major testing equipment used at the co-development diagnostic centers are procured and provided by Yunkang, and generally, shall be returned to the Company if the relevant service and co-development agreement is expired or terminated.

(5) Smart Internet of things. Yunkang has established a smart Internet of things platform connecting its testing equipment, which can monitor the status of testing equipment at the co-developed diagnostic centers at headquarters level. This platform will send the operation and maintenance data of testing equipment at the co-developed diagnostic centers to Yunkang's system so that the Company can

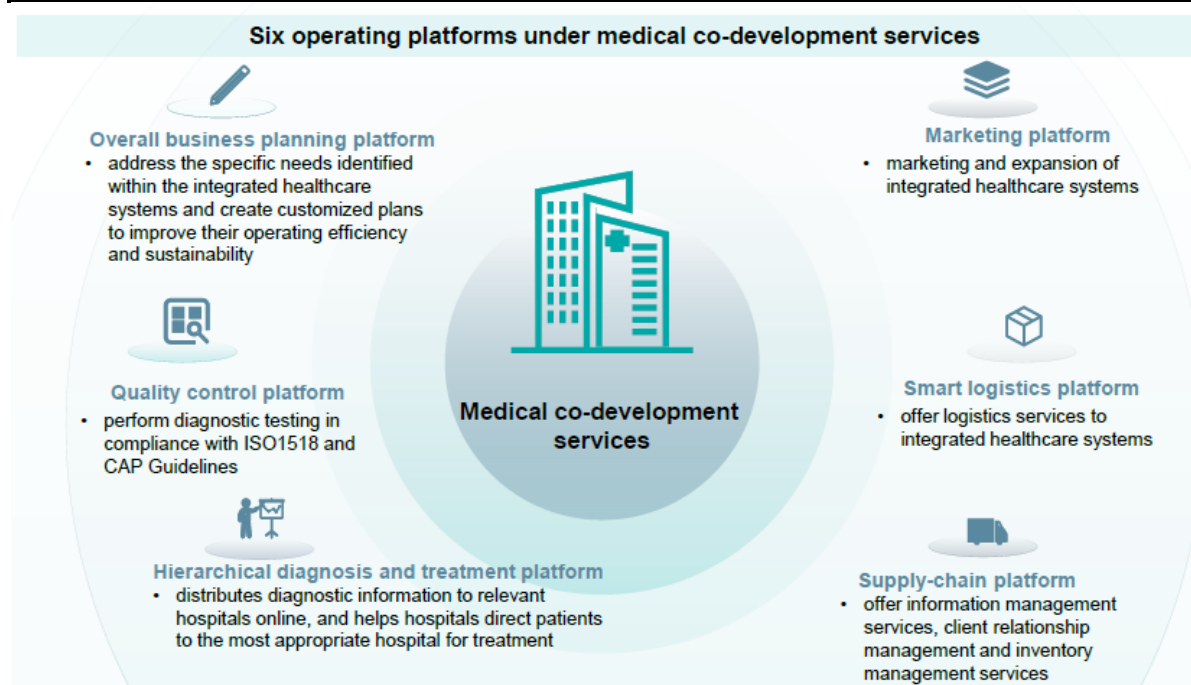
monitor the operating status of testing equipment to ensure the accuracy and efficiency of diagnostic testing.

(6) Logistics assistance. Yunkang also offers logistics services to deliver test samples to co-developed diagnostic centers. If the co-developed diagnostic centers or member hospitals are not capable of performing certain diagnostic tests, the test samples may be delivered directly to one of Yunkang's ICLs for diagnostic testing.

(7) Diagnostic testing. Yunkang involves in the co-developed diagnostic centers' daily operations to perform diagnostic tests at the co-developed diagnostic centers. In addition, medical institutions may also use the diagnostic capacity of Yunkang's ICLs if the co-developed diagnostic centers are not capable of performing certain diagnostic tests. Afterwards, Yunkang will issue diagnostic reports.

To implement the above-mentioned comprehensive solutions, Yunkang has six operation platforms, namely, overall business planning, quality control, hierarchical diagnosis and treatment, marketing, smart logistics and supply chain.

Figure 10: Six operation platforms supporting co-development service



Source: Company data, CMBIGM

(1) Overall business planning platform. Yunkang assists customer hospitals with its strategic planning. The company has a team that conducts market research and monitors member hospitals' evolving needs. Then it endeavors to address the specific needs identified within the integrated healthcare systems and create customized plans to improve their operating efficiency and sustainability.

(2) Quality control platform. Focusing on the accuracy of diagnostic testing result, Yunkang has established relationships and maintained active collaboration with international standardization institutions. For example, the Company established a strategic relationship with CLSI since 2015, and has since then been the only laboratory collaborating with CLSI in China. The Company performs diagnostic testing in compliance with ISO1518 and CAP Guidelines. Yunkang also promotes the adoption of these international standards to be followed by the member hospitals in the integrated healthcare systems.

(3) Hierarchical diagnosis and treatment platform. Focusing on sharing information and allocating resources among member hospitals through intelligent technologies, Yunkang's hierarchical diagnosis and treatment platform distributes diagnostic information to relevant hospitals online, and helps hospitals direct patients to the most appropriate hospital for treatment. The hierarchical diagnosis and treatment platform involves Yunkang Telepathology Platform, through which member hospitals are able to conduct remote consultation, referral consultation and online transmission of tests results.

(4) Marketing platform. Focusing on the marketing and expansion of integrated healthcare systems, Yunkang offers marketing and promotion services for the integrated healthcare systems to expand its regional coverage.

(5) Smart logistics platform. Focusing on the efficiency and safety of test sample delivery, Yunkang offers logistics services to integrated healthcare systems. The Company prudently follows the national pharmaceutical cold chain logistics operation specifications when delivering test samples. It also adopts real-time tracking and visual monitoring to ensure its staff comply with the specifications when delivering test samples.

(6) Supply-chain platform. Focusing on the integration of upstream resources and downstream demand, Yunkang offers information management services, client relationship management and inventory management services for member hospitals, other medical institutions and corporations under integrated healthcare systems.

Diagnostic outsourcing services

Hospitals and other medical institutions have high demand for conducting diagnostic testing. However, it is time- and cost-consuming for them to conduct such testing by themselves, which creates significant opportunities for diagnostic outsourcing services providers. Leveraging its strong testing capabilities, Yunkang offers diagnostic outsourcing services by performing diagnostic testing and conducting results analyses based on test samples provided by hospitals and other medical institutions and charge diagnostic service fees from these medical institutions. The Company's diagnostic testing portfolio covers over 2,000 tests, including pathology tests, infectious disease diagnostic tests and genetic disease diagnostic tests.

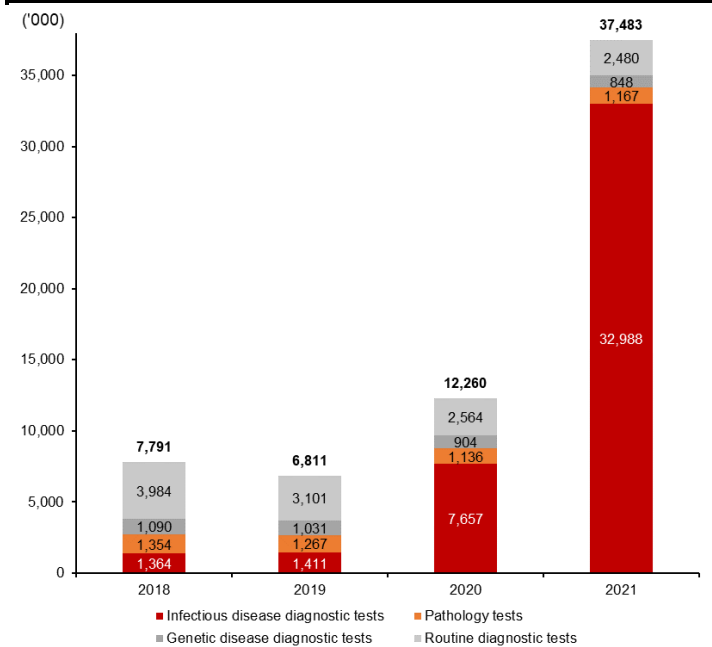
Unlike medical co-development services, diagnostic outsourcing services do not involve assisting medical institutions to build up their own diagnostic capabilities but primarily rely on Yunkang's ICLs to provide diagnostic testing services to medical institutions that do not have the capability to conduct the relevant diagnostic tests themselves. As such, diagnostic outsourcing services can expand the Company's service outreach to a wider group of medical institutions.

After testing samples are collected from hospitals, Yunkang's logistics department is responsible for delivering the testing samples to one of its ICLs. Yunkang's testing professionals will first conduct a preliminary assessment of the testing samples to make sure they satisfy diagnostic testing standards. After the diagnostic testing procedure is completed, testing professionals will conduct a preliminary analysis on the diagnostic results with reference to (1) the patient's clinical conditions; and (2) historical testing results of the same category of diagnostic testing and will issue the diagnostic report to the hospital. Under the service agreements, Yunkang sets unit prices for different diagnostic tests in agreements with reference to the local pricing protocol, and customers pay Yunkang for each diagnostic test performed.

For the years ended 31 Dec 2018, 2019, 2020 and 2021, Yunkang provided diagnostic outsourcing services to 2,619, 2,296, 2,634, and 2,922 hospitals and other medical institutions, including 251, 244, 235 and 243 Class III hospitals and 456, 421, 473 and 494 Class II hospitals, respectively. For the years ended 31 Dec 2018, 2019, 2020, and 2021, the revenue generated from diagnostic outsourcing services amounted to RMB449.3mn, RMB463.1mn, RMB857.7mn, and RMB1,024.3mn, respectively, representing 75.3%, 68.3%, 71.5% and 60.4% of the total revenue for the same period, respectively.

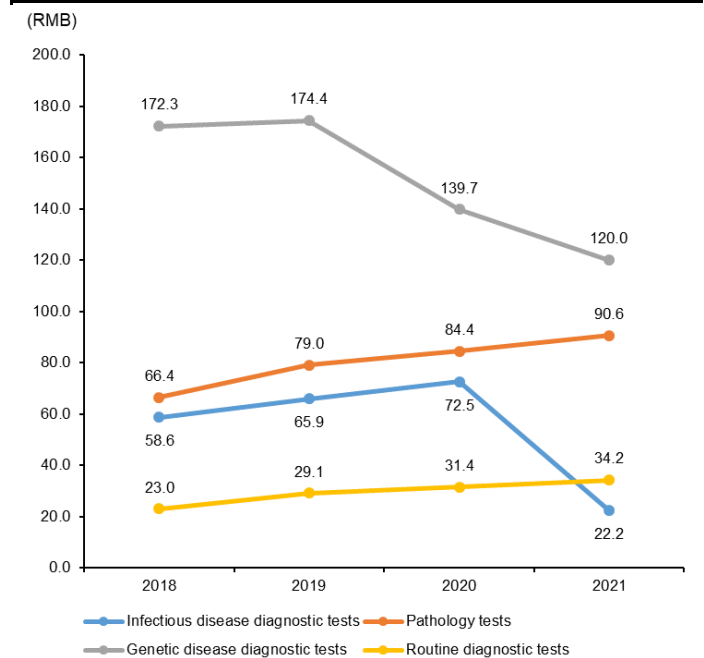
The majority of infectious disease diagnostic tests performed in 2020 and 8M21 were COVID-19 tests. Yunkang completed 6.2mn and 31.5mn COVID-19 tests under its diagnostic outsourcing services in 2020 and 2021, respectively.

Figure 11: Number of diagnostic tests performed under diagnostic outsourcing services



Source: Company data, CMBIGM

Figure 12: Average selling price for tests under diagnostic outsourcing services



Source: Company data, CMBIGM

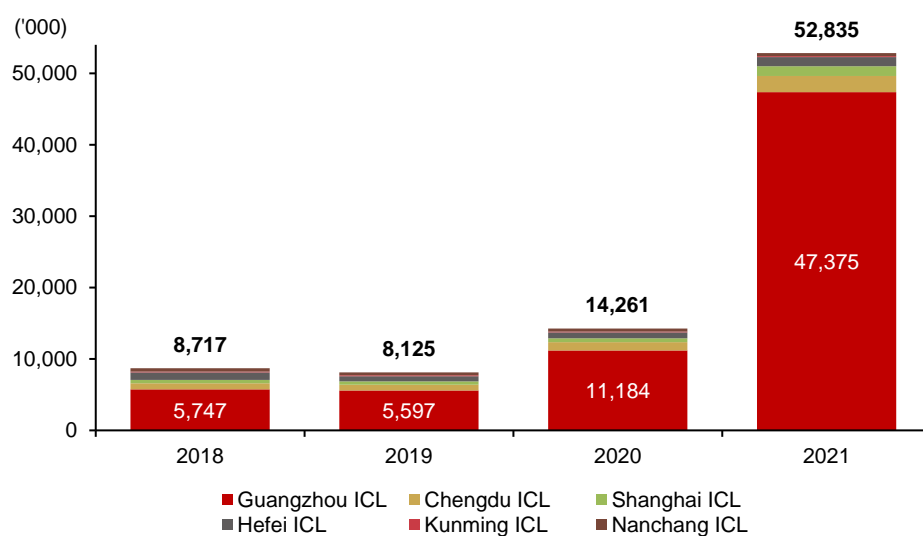
Diagnostic outsourcing services are usually performed in Yunkang’s self-operated ICLs. As of Dec 2021, Yunkang had six laboratories located in Guangzhou, Chengdu, Shanghai, Hefei, Kunming and Nanchang, covering customers in corresponding provinces or cities nearby. These ICLs are capable of performing over 2,000 kinds of tests, covering over 70% of major diagnostic testing categories in the medical operation services market in 2020, according to F&S. In addition to the above ICLs, Yunkang has opened new ICLs in Jinan, Shantou, Foshan and Zhuhai in early 2022 and is in preparation to open a new ICL located in Baiyun District of Guangzhou, which was expected to be completed and opened in 2Q22. In addition, the Company is preparing to open several more ICLs in Shenzhen, Dongguan, Nanning and Huizhou in the 2H22.

Figure 13: Yunkang's major self-owned ICLs

| ICL | No. of technicians as of 25 Apr 2022 | Commencement date of operation | License and certificates | Expiration date of accreditation |
|---------------|--------------------------------------|--------------------------------|--|----------------------------------|
| Guangzhou ICL | 494 | 2006 | Practice License for Medical Institutions (医疗机构执业许可证) | 2024 |
| | | | Certificate of Clinical Gene Amplification Test Laboratories (临床基因扩增检验实验室验收合格证书) | 2024 |
| | | | Qualification Certificate of Inspection and Testing Agency (检验检测机构资质认定证书) | 2023 |
| Chengdu ICL | 65 | 2009 | Practice License for Medical Institutions (医疗机构执业许可证) | 2026 |
| | | | Filing for Biosafety Management of Pathogenic Microbiology Laboratories (可感染人类病原微生物二级生物安全实验室备案登记) | 2025 |
| | | | Clinical Gene Amplification Laboratory Acceptance (临床基因扩增实验室技术验收审核) | N/A |
| Shanghai ICL | 37 | 2006 | Practice License for Medical Institutions (医疗机构执业许可证) | 2023 |
| | | | Certificate of Clinical Gene Amplification Test Laboratories (临床基因扩增检验实验室验收合格证书) | 2023 |
| | | | Pathogenic Microbiology Laboratory Record Certificate (病原微生物实验室备案凭证) | N/A |
| Hefei ICL | 46 | 2009 | Practice License for Medical Institutions (医疗机构执业许可证) | 2023 |
| | | | Certificate of Clinical Gene Amplification Test Laboratories (临床基因扩增检验实验室验收合格证书) | 2025 |
| Kunming ICL | 37 | 2010 | Practice License for Medical Institutions (医疗机构执业许可证) | 2026 |
| Nanchang ICL | 21 | 2009 | Practice License for Medical Institutions (医疗机构执业许可证) | 2025 |
| | | | Pathogenic Microbiology Laboratory Filing (病原微生物实验室备案) | 2025 |

Source: Company data, CMBIGM

As of 25 Apr 2022, Yunkang had 1,459 medical technicians working in its ICLs. Testing professionals are responsible for performing diagnostic testing and results analyses, and maintaining diagnostic test equipment. In order to help customers to improve pathological operations, Yunkang had employed over 90 external pathological experts to provide consultancy services on a need basis.

Figure 14: Number of diagnostic tests performed by ICLs


Source: Company data, CMBIGM; Note: The number of diagnostic tests performed also included diagnostic tests performed at the ICLs under the medical co-development model.

Diagnostic testing services for non-medical institutions

Yunkang offers individuals diagnostic testing services for non-medical institution clients. For the years ended 31 Dec 2018, 2019 and 2020 and 2021, Yunkang served 200, 55, 128 and 303 non-medical institutions, respectively, which primarily included financial institutions and insurance companies. The revenue generated from diagnostic testing services for non-medical institution clients amounted to RMB46.2mn, RMB48.7mn, RMB66.8mn and RMB53.1mn, representing 7.8%, 7.2%, 5.6% and 3.1% of the total revenue for the same period, respectively. The Company has ceased cooperations with insurance companies since 2019, which generally had a lower average selling price.

The diagnostic testing services for non-medical institution clients are primarily conducted through Yunkang's outpatient clinic. Yunkang primarily provides health management services offline where the Company conducts basic diagnostic testing. For the clients who received diagnostic tests at its outpatient clinic, Yunkang also provides basic medical consultation services based on the diagnostic testing reports the Company issued and refer them to the suitable hospitals for further treatment.

In 2018, 2019 and 2020 and 2021, the outpatient clinic performed 2,611, 2,459, 84,434 and 360,139 diagnostic tests, respectively. The significant increase in diagnostic tests in 2020 and 2021 was primarily because of the increasing demand for COVID-19 tests.

Healthcare service market in China has large growth potential

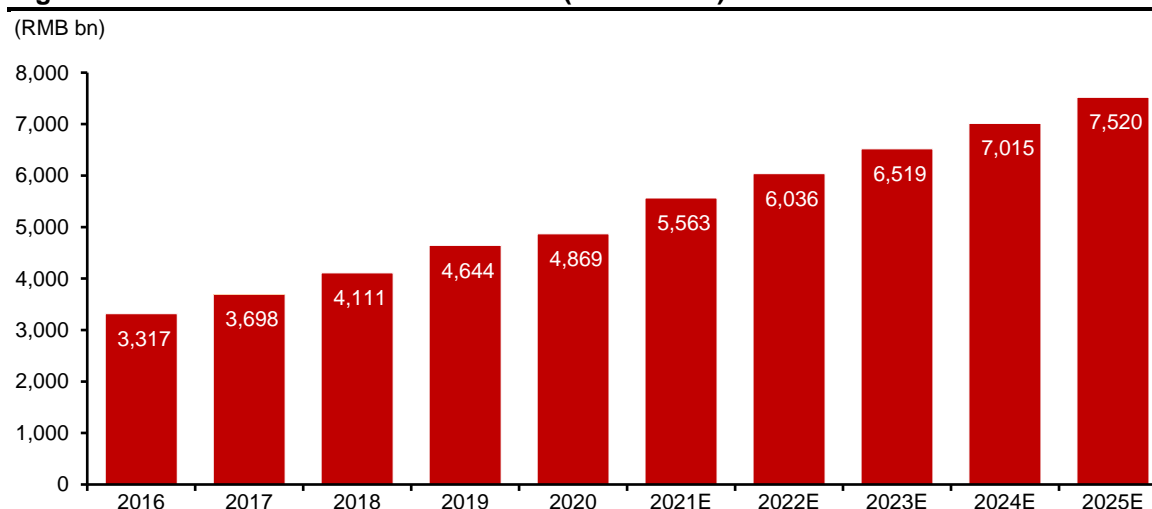
Overview of the healthcare service market in China

Healthcare providers in China consist of primary medical institutions (including Class I hospitals, unrated hospitals and other medical institutions, such as maternity & child medical institutions, centres for disease control and special disease prevention agencies), secondary medical institutions (including Class II hospitals) and tertiary medical institutions (Class III hospitals).

The potential of China's healthcare service market is tremendous. From 2016 to 2020, the total healthcare service market in China has increased from RMB3,317bn to RMB4,869bn, representing a CAGR of 10.1%. However, the total healthcare expenditure as a percentage of GDP in China is relatively low as compared to that of developed countries. In 2020, the total healthcare expenditure in China only accounted for 7.1% of its GDP, whereas the total healthcare expenditure in the US and Japan accounted for 19.2% and 12.4% of their respective GDP in 2020, respectively. Furthermore, China only had a per capita national healthcare expenditure of US\$745.8 in 2020, compared to US\$12,114.8 per capita in the US and US\$5,407 per capita in Japan.

Driven by the increasing awareness of healthcare and the aging population, the total healthcare service market in China is forecasted to reach RMB7,520bn by 2025E, which represents a CAGR of 9.1% from 2020 to 2025.

Figure 15: China healthcare service market (2016-2025E)



Source: F&S, CMBIGM

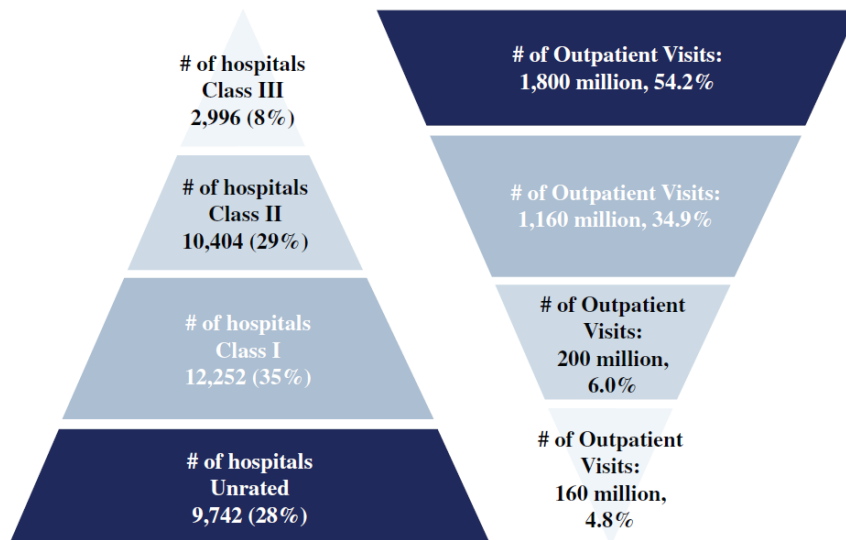
Uneven distribution of medical resources in China

As of the end of 2020, there were 35,394 hospitals in China. In terms of hierarchy of hospitals, China's hospitals are categorized as rated and unrated hospitals, of which there were 25,652 and 9,742 as of 31 Dec 2020, respectively. For rated hospitals, they were further categorized as Class III hospitals, Class II hospitals and Class I hospitals, of which there were 2,996, 10,404 and 12,252 in China, respectively.

There is an uneven distribution of medical resources and diagnosis demands in China. China's medical resources are concentrated in Class III hospitals, and patients prefer to seek healthcare services in these hospitals, which leads to (1) an uneven concentration of medical resources and diagnosis demands in Class III hospitals, while a large proportion of patients only have general or chronic diseases and they can be diagnosed and treated well in Class I and Class II hospitals; and (2)

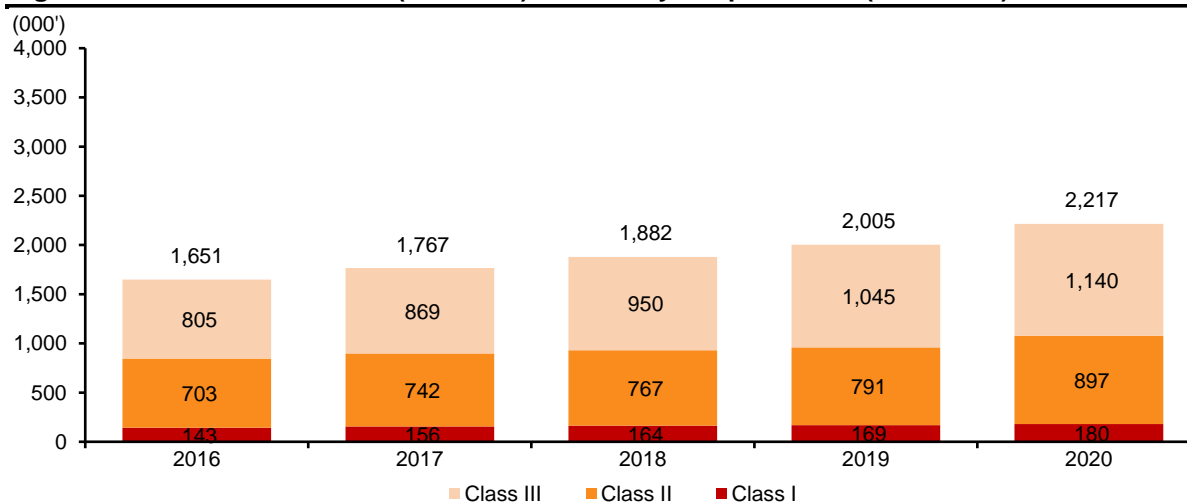
insufficient medical resources (including medical professionals and technology) in China’s primary medical institutions. From 2016 to 2020, there were more doctors in Class III hospitals in total than in Class II and Class I hospitals combined. The following diagrams sets forth the number of doctors in Class III, Class II and Class I hospitals.

Figure 16: Uneven concentration of medical resources and diagnosis demands in China (2020)



Source: National Health Commission of China, F&S, CMBIGM

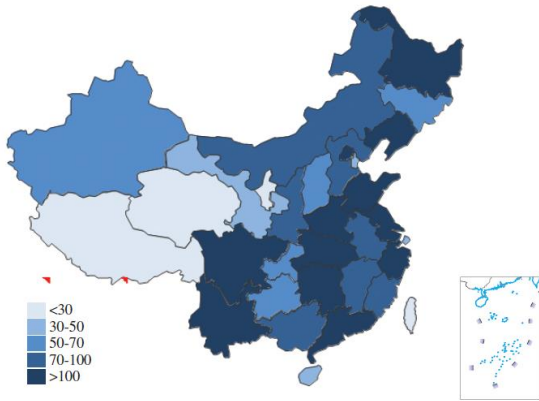
Figure 17: Number of certified (assistant) doctors by hospital class (2016-2020)



Source: National Health Commission of China, F&S, CMBIGM

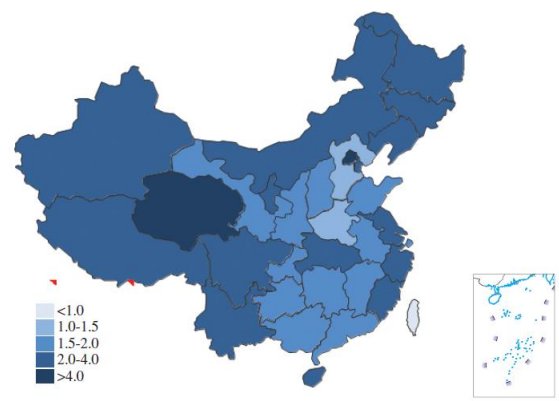
In addition, medical resources are distributed differently among geographical regions in China. Medical resources are concentrated in the economically developed regions, which aggravates the insufficiency of medical resources in under-developed regions. In 2020, in developed regions such as Beijing, Shanghai and Guangzhou, there are more than 100 Class III hospitals in each city. On the other hand, in relatively under-developed provinces, there are fewer Class III hospitals in each province, on average, less than four Class III hospitals per million populations.

Figure 18: Geographic distribution of class III hospitals in China (2020)



Source: F&S, CMBIGM

Figure 19: Number of class III hospitals per million population in China (2020)



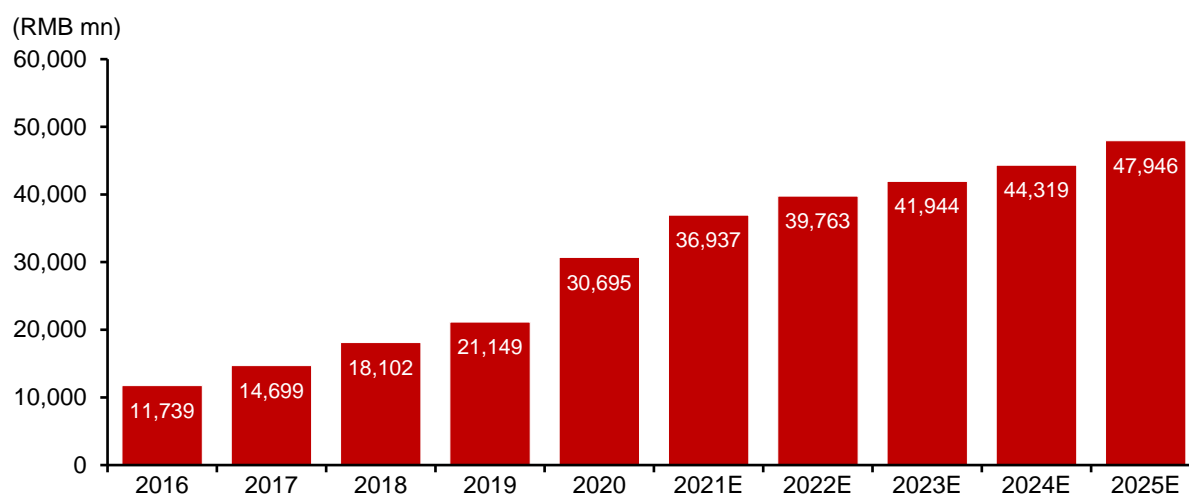
Source: F&S, CMBIGM

Medical operation service market in China

Overview of medical operation service market in China

Medical operation services primarily relate to diagnostic testing services provided to medical institutions which can be divided into (1) diagnostic testing services for Co-development Medical Institutions, and (2) diagnostic outsourcing services provided to medical institutions through ICLs. With the enactment of favorable policies and growing awareness of healthcare in China, China's medical operation services market has experienced rapid growth, increasing from RMB11,739mn in 2016 to RMB30,695mn in 2020 at a CAGR of 27.2%. It is expected that China's medical operation services market will continue its rapid growth, reaching RMB47,946mn in 2025E at a CAGR of 9.3% from 2020 to 2025, according to F&S.

Figure 20: Medical operation services market in China (2016-2025E)



Source: National Bureau of Statistics of China, F&S, CMBIGM

In terms of the number of ICLs, as of 31 Dec 2020, there were more than 1,800 ICLs in China, comparing to 6,800 ICLs in the United States, according to F&S. In terms of market penetration rate in 2020, ICL only has a penetration rate of 6% in China, comparing to the penetration rate of 50% and 35% in Europe and the United States, respectively. In terms of testing capacity, leading ICLs in China can provide approximately 3,500 test items, comparing to approximately 5,000 testing items in Europe and the United States. We see the growth potential of medical operation service market in China.

The medical operation service market in China is very fragmented. In 2020, Yunkang had a market share of 3.7% in China's medical operation service market in terms of revenue

Overview of medical co-development service market in China

As part of the healthcare reform, the Chinese government has established a series of policies to support the local integration of China's healthcare system in the context of hierarchical diagnosis and treatment system (HDTs). Under the HDTs, patients with general and chronic diseases are encouraged to seek treatment in primary medical institutions, while patients with critical conditions or complex diseases should be treated in secondary or tertiary medical institutions. Further, first diagnosis shall be primarily performed at primary medical institutions and efficient referral system will direct patients to the most suitable medical institution for treatment.

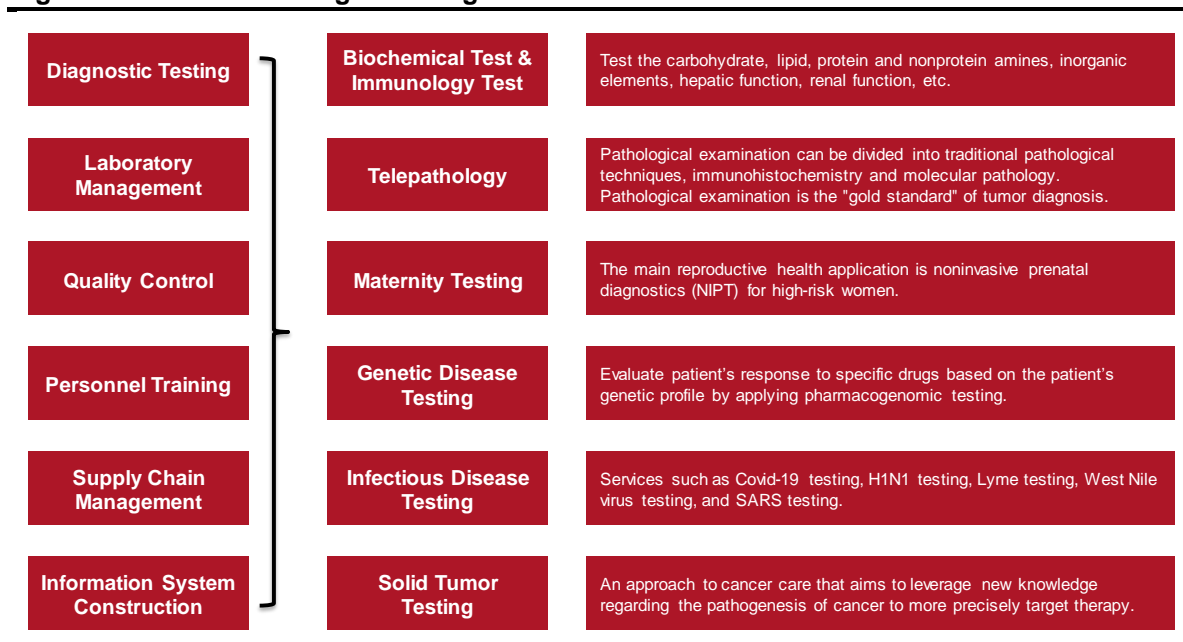
Integrated healthcare systems refer to regional healthcare systems consisting of primary, secondary and tertiary medical institutions. Within the integrated healthcare systems, medical resources, especially diagnostic capabilities can be shared efficiently, aim to improve the quality of primary

medical institutions, promote the optimal allocation of medical resources, allocate patients to the appropriate hospitals and balance the concentration of medical resources and diagnosis demands in China. As such, integrated healthcare systems can help the HDTs improve its overall medical service capacity. In recent years, the Chinese government has promulgated a series of regulations to promote the development of integrated healthcare systems, including Measures Relating the Integrated Healthcare Systems (医疗联合体管理办法(试行)) issued by the National Health Commission of China on 9 July 2020. Pursuant to the Measures, medical institutions are encouraged to join integrated healthcare systems to enhance the HDTs in China.

Under the integrated healthcare systems, most patients shall first visit lower-tiered medical institutions for diagnosis and shall only be directed to higher-tiered hospitals within the integrated healthcare system if the lower-tiered medical institution is not capable of such treatment. However, most member medical institutions do not have sufficient expertise in certain services, which calls for medical co-development between medical institutions and service providers, especially diagnostic testing service providers.

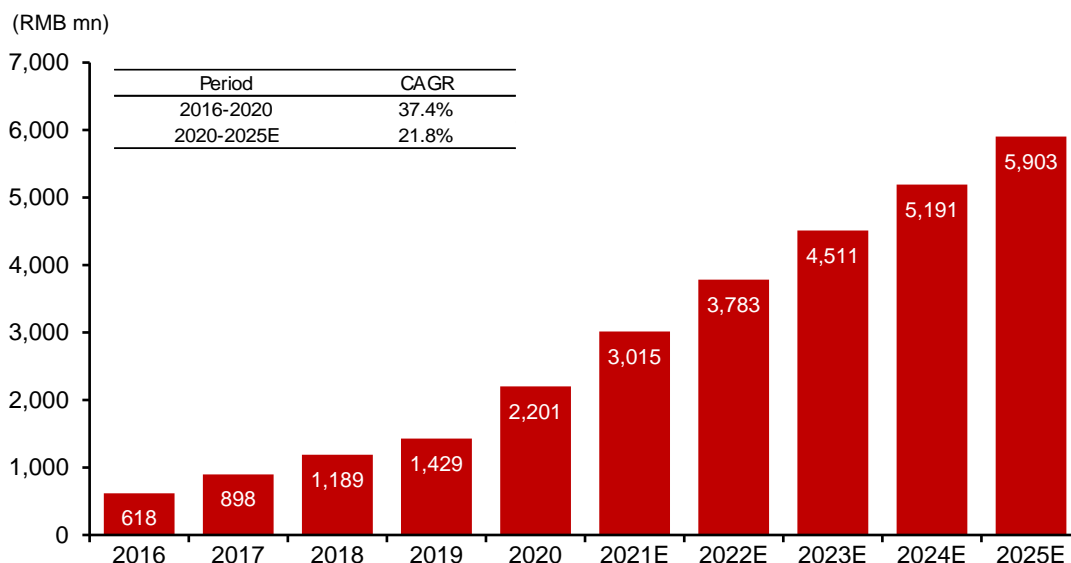
Key services are needed for the operation of integrated healthcare systems, including but not limited to building up diagnostic centers, professional medical expertise, diagnostic quality and technical standardization, information sharing, supply-chain management and pharmaceutical cold chain logistics. In view of the continuous policy support for integrated healthcare systems, medical co-development has become an effective solution to the current healthcare service market in China, and corresponding medical co-development services are expected to develop rapidly as well.

Figure 21: Content of integrated diagnosis and treatment service



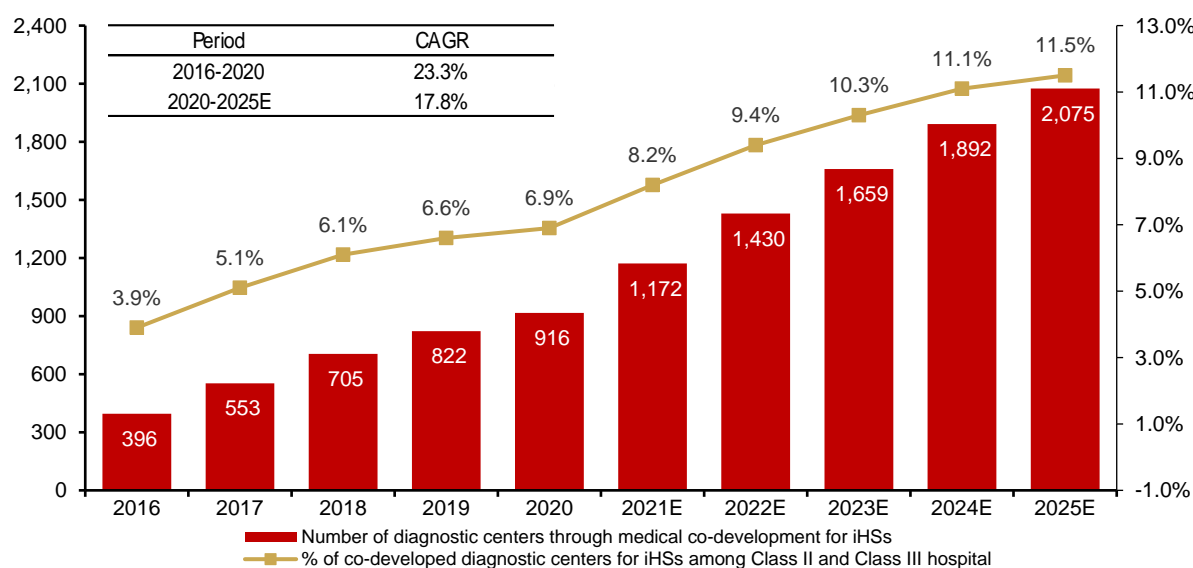
Source: F&S, CMBIGM

The total market size of medical co-development services in China shows an increasing trend. In 2020, the market size was RMB2,200.9mn, compared to a market size of RMB617.7mn in 2016, showing a CAGR of 37.4% from 2016 to 2020. The market size in China is expected to grow up to RMB5,903.4mn in 2025E, representing a CAGR of 21.8% from 2020 to 2025E.

Figure 22: Medical co-development service market for iHSs in China (2016-2025E)

Source: National Bureau of Statistics of China, F&S, CMBIGM

As an important part of the integrated healthcare systems, hospitals, especially those with high diagnostic testing demands, tend to establish diagnostic centers through medical co-development with companies that can provide standardized and high quality medical co-development services. As of 31 Dec 2020, there were 916 diagnostic centers established or under contract to be established through medical co-development for integrated healthcare systems, increasing from 396 as of 31 Dec 2016 at a CAGR of 23.3%. The cumulative number of diagnostic centers through medical co-development for integrated healthcare systems is expected to reach to 2,075 by 2025E, representing a CAGR of 17.8% from 2020. The penetration rate of co-developed diagnostic centers in China is expected to increase from 6.9% in 2020 to 11.5% in 2025E in Class II and Class III hospitals.

Figure 23: Cumulative number of co-development diagnostic centers

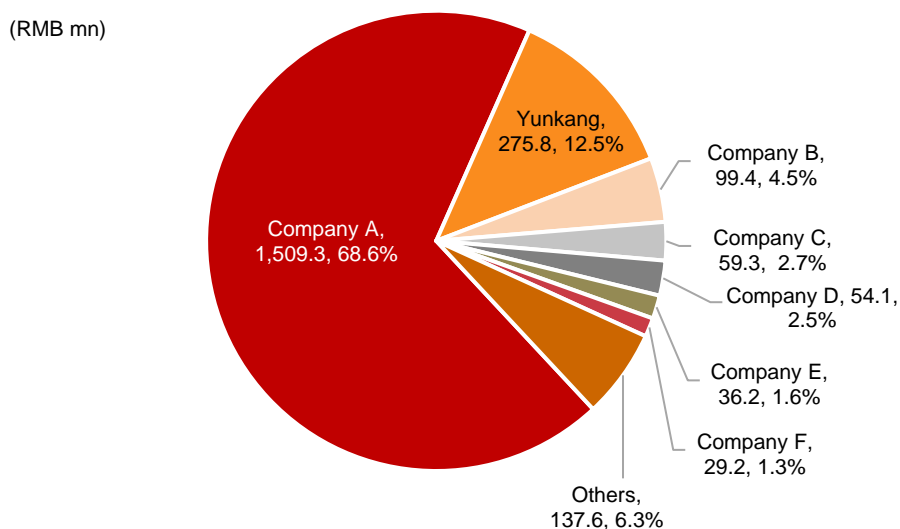
Source: National Bureau of Statistics of China, F&S, CMBIGM

Medical co-development service market for integrated healthcare systems is highly concentrated, with the seven largest market players accounting for a market share of approximately 93.7%, and the

largest market player accounting for a market share of approximately 68.6%, in terms of revenue in 2020. In 2020, major providers of medical co-development services for integrated healthcare system in China include KingMed Diagnostics, Yunkang, Biotecan, ADICON, Kindstar Global, DIAN Diagnostics and HybriBio.

In 2020, Yunkang was the second largest medical co-development service provider for integrated healthcare systems with a market share of 12.5% in terms of revenue. The growing number of integrated healthcare systems in China has created significant opportunities for diagnostic testing service providers. The market size of China's medical co-development services is expected to grow at a CAGR of 21.8% from 2020 to 2025, according to F&S.

Figure 24: Providers of medical co-development services for integrated healthcare systems in China by revenue (2020)

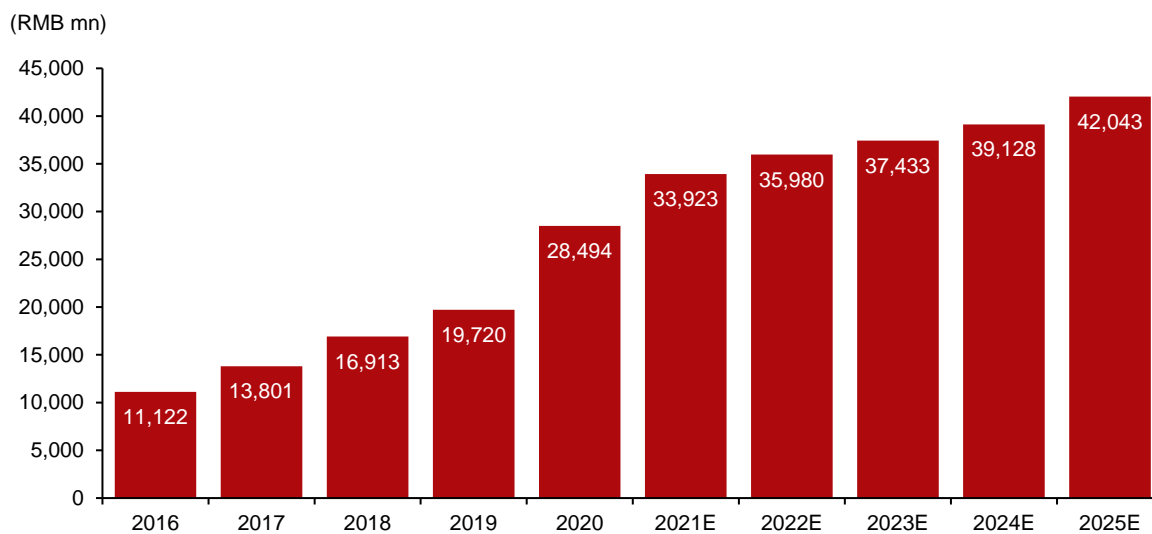


Source: F&S, CMBIGM; Note: The market size here only takes into account the medical testing service income

Overview of diagnostic outsourcing service market in China

Accurate and efficient diagnosis forms the basis of precision medicine. As a result, hospitals have to build up their diagnostic testing practice to enhance their clinical and pathological diagnostic capabilities. However, diagnostic testing is a time and cost consuming process and it may not be efficient for hospitals to conduct all of such tests themselves. As such, there is significant market demand for ICLs that can provide standardized and modularized diagnostic testing services. Driven by this, the size of China's diagnostic outsourcing service market has experienced rapid growth, growing from RMB11,121.6mn in 2016 to RMB28,494.0mn in 2020. It is expected that the diagnostic outsourcing service market will continue its growth to RMB42,042.7mn in 2025E.

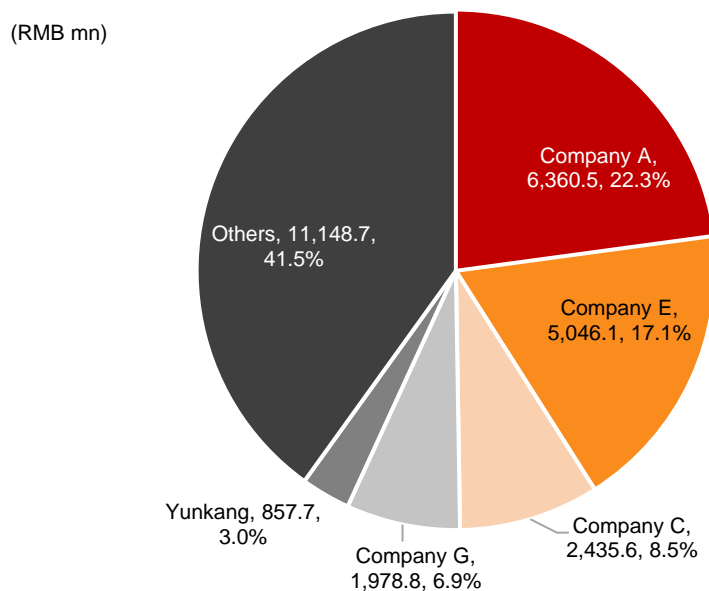
Figure 25: Diagnostic outsourcing service market in China (2016-2025E)



Source: F&S, CMBIGM

China’s diagnostic outsourcing service market is highly fragmented, with over 800 market players in 2020. Yunkang is one of the five largest market players in China’s diagnostic outsourcing service market, with a market share of 3.0% in terms of revenue in 2020. The five largest market players in China’s diagnostic outsourcing service market accounted for 60% of the entire market in terms of revenue in 2020.

Figure 26: Diagnostic outsourcing service market by revenue (2020)



Source: F&S, CMBIGM

Diagnostic outsourcing service is performed by Independent Clinical Laboratories (ICLs). With the rapid development of clinical medicine, the demand on laboratory testing has increased. New technologies and equipment are needed to generate a large number of new tests to meet the clinical demands. However, it is getting difficult to establish laboratories able to perform all the tests individually because of the technological, financial, and personnel limitations, which is the case even for some

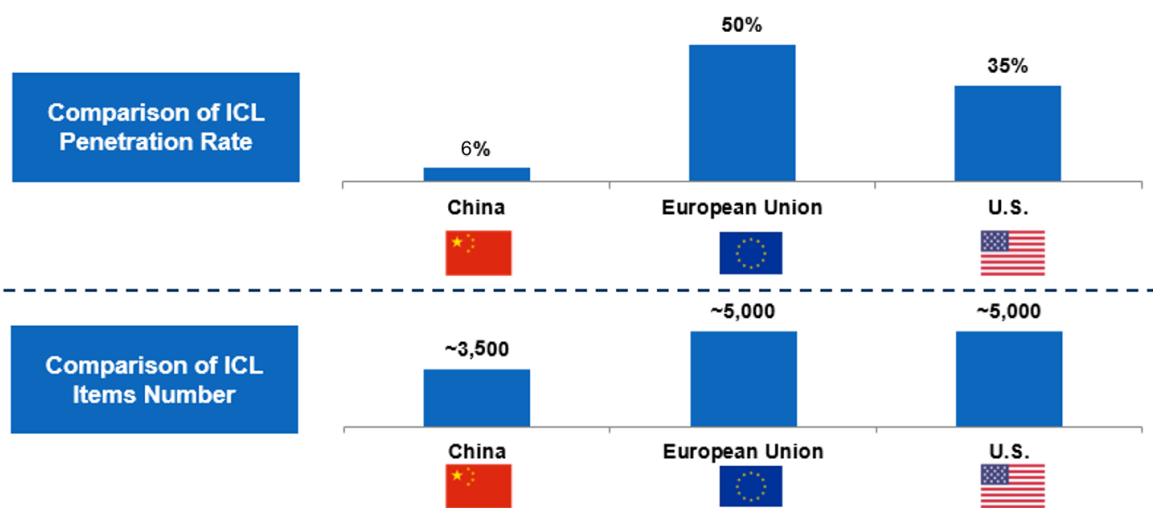
large-scale hospitals (such Class III hospitals). It is easy to understand that the high-tech and high-throughput might also mean high cost and high operation-skills thus making it difficult or uneconomical for a single hospital to conduct all the tests needed. An independent third-party medical laboratory (ICL) can solve this problem with the characteristics of resource sharing and intensive managing.

ICLs are medical institutions licensed by a government agency responsible for healthcare affairs, as an independent legal personality, and specializes in clinical/medical laboratory testing services. The third-party clinical/medical laboratory tests samples from patients from different hospitals and delivers the results to clients by establishing a cooperative relationship with the hospitals. The third-party clinical laboratory is independent of hospitals and undertakes the legal responsibility independently.

Although China's ICL industry started late, it is progressing rapidly. Thanks to the growing outsourcing demand from hospitals under the pressure of cost control, the ICL market in China has expanded fast. According to F&S, ICL only has 6% penetration rate in China in 2020, compared with 50% in EU and 35% in the US, indicating ICL market is still in a very early stage in China and has great development potential.

Leading ICLs in China can provide more than 3,500 test items, still far behind ICLs in other advanced area (the EU and US). For instance, LabCorp from the US and SYNLAB from the EU can provide nearly 5,000 different test items, respectively.

Figure 27: Comparison of ICL penetration rate and items number (2020)



Source: F&S, CMBIGM

COVID outbreak drives industry growth

The COVID-19 outbreak has significantly enhanced awareness of diagnostic testing, especially with respect to infectious disease diagnostic tests. Local governments also promulgated laws and policies, (such as the Guidance on Promoting Integrated Healthcare System in China (关于推进医疗联合体建设和发展的指导意见) issued by the State Council in April 2017; the Implementation Methods to Advance Covid-19 Nucleic Acid Tests (关于加快推进新冠病毒核酸检测的实施意见) issued by the Disease Protection Bureau of CDC in China in June 2020; the Interim Measures on Integrated Healthcare System Management (医疗联合体管理办法(试行)) issued by NHC in July 2020; and the Notice on Continuous Improvement in the Management of Clinical Use of Antimicrobial Drugs (关于持续做好抗菌药物临床应用管理工作的通知) issued by NHC in July 2020), to encourage medical institutions to build up their diagnostic capabilities, especially with respect to infectious diseases, as well as to join integrated healthcare systems to enhance the HDTs in China, which will create significant opportunities for diagnostic testing services for Co-development Medical Institutions.

Following the Implementation Methods to Advance COVID-19 Nucleic Acid Tests issued by the Disease Protection Bureau of CDC in China in June 2020, medical institutions in China have to conduct a large number of COVID-19 tests. Subsequently, with the Notice on Continuous Improvement in the Management of Clinical Use of Antimicrobial Drugs issued by NHC in July 2020, medical institutions are also required to continuously improve their diagnosis and treatment of infectious diseases and as clearly stipulated, strengthen the establishment of their clinical laboratories especially related to nucleic acid tests for COVID-19. As a result, many medical institutions chose to collaborate with medical operation service providers for infectious disease diagnostic testing services for Codevelopment Medical Institutions.

Leveraging its existing professional and standardized diagnostic capabilities infectious disease diagnostic testing, Yunkang has been able to respond quickly to market demand for COVID-19 tests in 2020. The Company started to offer COVID-19 testing (nucleic acid testing) as early as Jan 2020. Yunkang's Guangzhou laboratory was included by the Guangdong Provincial Health Commission (广东省卫生健康委) in the first batch of medical institutions with the COVID-19 nucleic acid testing capability. As of the end of 2021, all of Yunkang's ICLs, except for Kunming ICL, have obtained such accreditation. According to F&S, currently there are over 8,000 medical institutions and ICLs that can provide such COVID-19 testing services, including over 800 in Guangdong province.

Due to the COVID-19 pandemic, the demands for Yunkang's infectious disease diagnostic tests have increased significantly, driven by the increasing number of COVID-19 nucleic acid tests. In 2020, Yunkang generated revenue of RMB547.1mn and gross profit of RMB347.7mn from COVID-19 diagnostic testing, representing 45.6% of its total revenue and 53.0% of its total gross profit for the same period. In 2021, Yunkang recorded revenue of RMB985.7mn (+80% YoY) and gross profit of RMB560.0mn (+61% YoY) from COVID-19 tests, representing 58.1% of its total revenue and 62.2% of its gross profit for the same period.

In 2021, Yunkang completed a total of 53.2mn diagnostic tests, including 44.5mn COVID-19 tests and 8.7mn non-COVID-19 tests. In 2022, although the COVID-19 vaccination rate has been high in China, the demand for COVID-19 tests was not materially impacted due to mutant strains of COVID-19 and full screening process in China once COVID-19 emerges in certain regions and cities. We expect the demand of COVID-19 tests will remain high in the rest of 2022.

Financial Analysis

We expect total revenue to grow 60%/ 1%/ 3% YoY to RMB2,719mn/ RMB2,734mn/ RMB2,815mn in FY22E/ 23E/ 24E.

We expect the Company's medical co-development services will become the key growth driver and will account for 38%, 42%, and 50% of the total revenue in FY22E/ 23E/ 24E, respectively. In the future, the medical co-development services will be the major focus of the Company.

Figure 28: Revenue forecasts (2019-2024E)

| (YE 31 Dec) RMB mn | 2019 | 2020 | 2021 | 2022E | 2023E | 2024E |
|---|------------|--------------|--------------|--------------|--------------|--------------|
| Medical co-development services | 166 | 276 | 619 | 1,027 | 1,157 | 1,397 |
| Diagnostic outsourcing services | 463 | 858 | 1,024 | 1,625 | 1,516 | 1,364 |
| Diagnostic testing services for non-medical institution clients | 49 | 67 | 53 | 66 | 61 | 54 |
| Total Revenue | 678 | 1,200 | 1,697 | 2,719 | 2,734 | 2,815 |
| YoY | 14% | 77% | 41% | 60% | 1% | 3% |

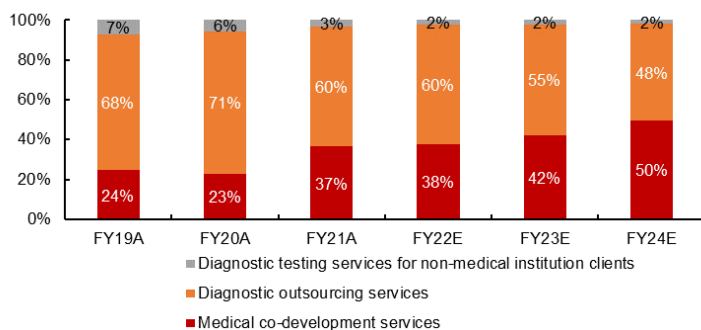
Source: Company data, CMBIGM estimates

Figure 29: Revenue mix (2019-2024E)

| (YE 31 Dec) | 2019 | 2020 | 2021 | 2022E | 2023E | 2024E |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| Medical co-development services | 24% | 23% | 37% | 38% | 42% | 50% |
| Diagnostic outsourcing services | 68% | 71% | 60% | 60% | 55% | 48% |
| Diagnostic testing services for non-medical institution clients | 7% | 6% | 3% | 2% | 2% | 2% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% |

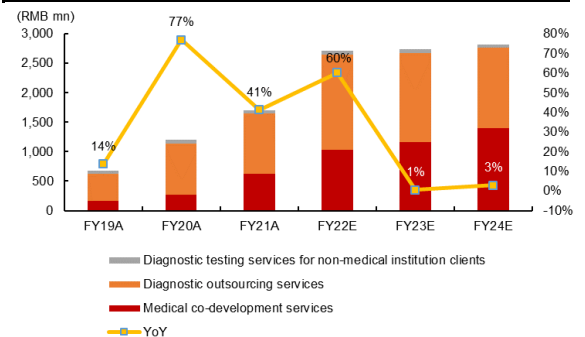
Source: Company data, CMBIGM estimates

Figure 30: Revenue breakdown (2019-2024E)



Source: Company data, CMBIGM estimates

Figure 31: Revenue and growth (2019-2024E)



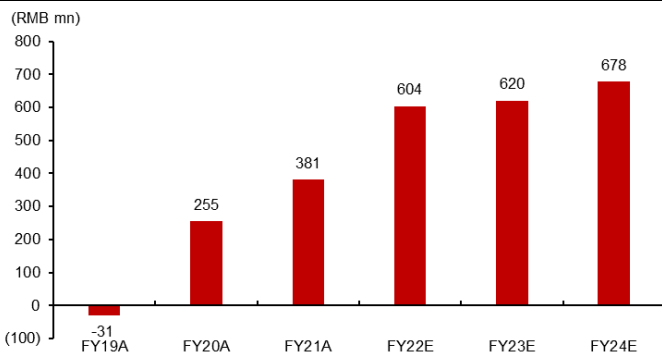
Source: Company data, CMBIGM estimates

Yunkang recorded net losses of RMB31mn in FY19A. Due to the significant business growth, the Company's bottom line turned positive and recorded net profit of RMB255mn in FY20A. The net profit increased to RMB381mn in FY21A. We expect the Company to continue to book attributable net profit of RMB604mn/ RMB620mn/ RMB678mn in FY22E/ 23E/ 24E.

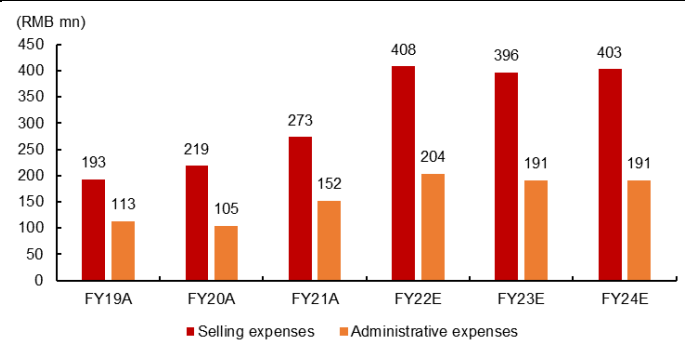
Figure 32: P&L forecasts (2019-2024E)

| (YE 31 Dec) RMB mn | 2019 | 2020 | 2021 | 2022E | 2023E | 2024E |
|--|-------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 678 | 1,200 | 1,697 | 2,719 | 2,734 | 2,815 |
| Cost of sales | (379) | (544) | (798) | (1,376) | (1,396) | (1,402) |
| Gross profit | 240 | 299 | 656 | 899 | 1,343 | 1,338 |
| <i>GPM</i> | 35% | 25% | 39% | 33% | 49% | 48% |
| Selling expenses | (193) | (219) | (273) | (408) | (396) | (403) |
| <i>% of revenue</i> | 28% | 18% | 16% | 15% | 15% | 14% |
| Administrative expenses | (113) | (105) | (152) | (204) | (191) | (191) |
| <i>% of revenue</i> | 17% | 9% | 9% | 8% | 7% | 7% |
| Other income and gains | (4) | (9) | (23) | (3) | (3) | (3) |
| <i>% of revenue</i> | (1%) | (1%) | (1%) | 0% | 0% | 0% |
| (Loss)/profit before income tax | (11) | 323 | 451 | 728 | 747 | 816 |
| Income tax expense | (1) | (53) | (79) | (124) | (127) | (139) |
| <i>Tax rate</i> | (7%) | 16% | 17% | 17% | 17% | 17% |
| Profit/(loss) for the year/period | (32) | 260 | 382 | 604 | 620 | 678 |
| Non-controlling interests | (1) | 5 | 1 | 0 | 0 | 0 |
| Net profit attributable to shareholders | (31) | 255 | 381 | 604 | 620 | 678 |
| <i>NMP</i> | (4.6%) | 21.3% | 22.5% | 22.2% | 22.7% | 24.1% |

Source: Company data, CMBIGM estimates

Figure 33: Net profit forecasts (2019-2024E)

Source: Company data, CMBIGM estimates

Figure 34: SG&A expenses forecasts (2019-2024E)

Source: Company data, CMBIGM estimates

Financial Statements

| Income statement | | | | | | Cash flow summary | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|---|--------------|--------------|--------------|--------------|--------------|
| YE 31 Dec (RMB mn) | FY20A | FY21A | FY22E | FY23E | FY24E | YE 31 Dec (RMB mn) | FY20A | FY21A | FY22E | FY23E | FY24E |
| Revenue | 1,200 | 1,697 | 2,719 | 2,734 | 2,815 | Profit before tax | 323 | 451 | 728 | 747 | 816 |
| Medical co-development services | 276 | 619 | 1,027 | 1,157 | 1,397 | Depreciation of property and equipment | 33 | 52 | 76 | 98 | 117 |
| Diagnostic outsourcing services | 858 | 1,024 | 1,625 | 1,516 | 1,364 | Net impairment losses on financial | 5 | 23 | 0 | 0 | 0 |
| Diagnostic testing services for non-medical institution clients | 67 | 53 | 66 | 61 | 54 | Amortisation of intangible assets | 7 | 4 | 4 | 4 | 4 |
| Cost of sales | (544) | (798) | (1,376) | (1,396) | (1,402) | Change in working capital | (152) | (133) | (297) | 3 | (25) |
| Gross profit | 656 | 899 | 1,343 | 1,338 | 1,414 | Others operating activities | (32) | (45) | (126) | (129) | (141) |
| Selling expenses | (219) | (273) | (408) | (396) | (403) | Finance costs | 19 | 17 | 13 | 13 | 13 |
| Administrative expenses | (105) | (152) | (204) | (191) | (191) | Net cash from operating activities | 203 | 369 | 398 | 735 | 785 |
| Net impairment losses on financial | (5) | (23) | 0 | 0 | 0 | Capex | (45) | (223) | (300) | (300) | (300) |
| Other income | 14 | 8 | 8 | 8 | 8 | Purchases of intangible assets | (0) | (3) | (10) | (10) | (10) |
| Operating profit | 323 | 451 | 728 | 747 | 816 | Other investing activities | (145) | 537 | 2 | 2 | 2 |
| Finance costs - net | (17) | (6) | (11) | (11) | (11) | Net cash from investing activities | (191) | 311 | (308) | (308) | (308) |
| Share of net loss of associates | (2) | 0 | 0 | 0 | 0 | Proceeds from bank/ other borrowings | 545 | 240 | 0 | 0 | 0 |
| (Loss)/profit before income tax | 323 | 451 | 728 | 747 | 816 | Repayments of bank/ other borrowings | (259) | (421) | 0 | 0 | 0 |
| Income tax expense | (53) | (79) | (124) | (127) | (139) | Interest paid | (18) | (16) | (13) | (13) | (13) |
| Profit from continuing operations | 270 | 373 | 604 | 620 | 678 | Other financing activities | (7) | (18) | 396 | (310) | (305) |
| Loss from discontinued operations | (10) | 9 | 0 | 0 | 0 | Net cash from financing activities | 261 | (215) | 383 | (323) | (318) |
| Total net profit | 260 | 382 | 604 | 620 | 678 | Net increase in cash | 273 | 465 | 473 | 104 | 159 |
| Non-controlling interests | 5 | 1 | 0 | 0 | 0 | Cash at beginning of the year | 64 | 336 | 801 | 1,274 | 1,378 |
| Profit attributable to shareholders | 255 | 381 | 604 | 620 | 678 | FX change | (1) | 0 | 0 | 0 | 0 |
| | | | | | | Cash at end of the year | 336 | 801 | 1,274 | 1,378 | 1,537 |

| Balance sheet | | | | | | Key ratios | | | | | |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|---|-------|----------|----------|----------|----------|
| YE 31 Dec (RMB mn) | FY20A | FY21A | FY22E | FY23E | FY24E | YE 31 Dec | FY20A | FY21A | FY22E | FY23E | FY24E |
| Non-current assets | 522 | 712 | 942 | 1,151 | 1,340 | Sales mix (%) | | | | | |
| Property and equipment | 277 | 485 | 709 | 911 | 1,094 | Medical co-development services | 23.0 | 36.5 | 37.8 | 42.3 | 49.6 |
| Intangible assets | 7 | 6 | 12 | 18 | 24 | Diagnostic outsourcing services | 71.5 | 60.4 | 59.8 | 55.5 | 48.5 |
| Prepayments and other receivables | 10 | 17 | 17 | 17 | 17 | Diagnostic testing services for non-medical institution clients | 5.6 | 3.1 | 2.4 | 2.2 | 1.9 |
| FVOCI | 109 | 110 | 110 | 110 | 110 | Total | 100 | 100 | 100 | 100 | 100 |
| FVTPL | 59 | 58 | 58 | 58 | 58 | Profit & loss ratios (%) | | | | | |
| Deferred tax assets | 40 | 36 | 36 | 36 | 36 | Gross margin | 55 | 53 | 49 | 49 | 50 |
| Others | 20 | 0 | 0 | 0 | 0 | EBITDA margin | 31 | 30 | 30 | 31 | 34 |
| Current assets | 1,435 | 1,743 | 2,372 | 2,479 | 2,665 | Pre-tax margin | 28 | 27 | 27 | 28 | 29 |
| Inventories | 25 | 42 | 54 | 52 | 49 | Net margin | 21 | 22 | 22 | 23 | 24 |
| Trade receivables | 485 | 825 | 968 | 974 | 1,003 | Effective tax rate | 16 | 17 | 17 | 17 | 17 |
| Prepayments and other receivables | 351 | 44 | 44 | 44 | 44 | Balance sheet ratios | | | | | |
| Cash and cash equivalents | 336 | 801 | 1,274 | 1,378 | 1,537 | Current ratio (x) | 2 | 2 | 3 | 3 | 4 |
| Others | 239 | 31 | 31 | 31 | 31 | Inventory days | 13 | 15 | 14 | 14 | 13 |
| Current liabilities | 819 | 871 | 729 | 735 | 737 | Trade receivables turnover days | 147 | 141 | 130 | 130 | 130 |
| Borrowings | 421 | 208 | 208 | 208 | 208 | Trade payables turnover days | 106 | 122 | 110 | 110 | 110 |
| Trade and other payables | 329 | 557 | 415 | 421 | 422 | Net debt to total equity ratio (%) | 11 | Net cash | Net cash | Net cash | Net cash |
| Lease liabilities | 17 | 27 | 27 | 27 | 27 | | | | | | |
| Others | 53 | 79 | 79 | 79 | 79 | Returns (%) | | | | | |
| Non-current liabilities | 71 | 133 | 133 | 133 | 133 | ROE | 27.5 | 30.3 | 31.0 | 23.8 | 23.0 |
| Borrowings | 51 | 82 | 82 | 82 | 82 | ROA | 15.8 | 17.3 | 20.9 | 17.9 | 17.8 |
| Deferred revenue | 0 | 0 | 0 | 0 | 0 | | | | | | |
| Others | 20 | 51 | 51 | 51 | 51 | | | | | | |
| Total net assets | 1,066 | 1,452 | 2,452 | 2,762 | 3,135 | | | | | | |
| Minority interest | 18 | 0 | 0 | 0 | 0 | | | | | | |
| Shareholders' equity | 1,048 | 1,452 | 2,452 | 2,762 | 3,135 | | | | | | |

Source: Company data, CMBIGM estimates

Valuation

Initiate at BUY with TP of HK\$23.44

We derive our target price of HK\$23.44 based on a DCF valuation (WACC: 11.9%, terminal growth rate: 2.0%).

Figure 35: Risk-adjusted DCF valuation (terminal growth rate: 2.0%)

| DCF Valuation (in RMB mn) | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|-----------------------------|-----------|------------|------------|------------|------------|------------|--------------|--------------|---------------|
| EBIT | 739 | 758 | 827 | 924 | 1,260 | 1,638 | 2,073 | 2,510 | 2,947 |
| Tax rate | 17% | 17% | 17% | 17% | 17% | 17% | 17% | 17% | 17% |
| EBIT*(1-tax rate) | 613 | 629 | 687 | 767 | 1,046 | 1,360 | 1,721 | 2,083 | 2,446 |
| + D&A | 80 | 102 | 121 | 139 | 165 | 188 | 209 | 228 | 245 |
| - Change in working capital | (297) | 3 | (25) | (48) | (211) | (241) | (270) | (286) | (285) |
| - Capex | (300) | (300) | (300) | (300) | (400) | (400) | (400) | (400) | (400) |
| FCFF | 96 | 434 | 483 | 558 | 599 | 906 | 1,259 | 1,625 | 2,006 |
| Terminal value | | | | | | | | | 20,694 |

| | |
|------------------------------|-------|
| Terminal growth rate | 2.0% |
| WACC | 11.9% |
| Cost of Equity | 16.0% |
| Cost of Debt | 5.0% |
| Equity Beta | 1.3 |
| Risk Free Rate | 3.0% |
| Market Risk Premium | 10.0% |
| Target Debt to Asset ratio | 35.0% |
| Effective Corporate Tax Rate | 15.0% |

| | |
|---|---------------|
| Terminal value (RMB mn) | 7,530 |
| Total PV (RMB mn) | 11,433 |
| Net debt (RMB mn) | -943 |
| Minority interest (RMB mn) | -0 |
| Equity value (RMB mn) | 12,376 |
| # of shares (mn) | 621 |
| Price per share (RMB per share) | 19.92 |
| Price per share (HK\$ per share) | 23.44 |

Source: CMBIGM estimates

Figure 36: Sensitivity analysis (HK\$ mn)

| | | WACC | | | | |
|----------------------|------|-------|-------|-------|-------|-------|
| | | 10.9% | 11.4% | 11.9% | 12.4% | 12.9% |
| Terminal growth rate | 3.0% | 29.16 | 27.05 | 25.20 | 23.55 | 22.08 |
| | 2.5% | 27.90 | 25.98 | 24.27 | 22.75 | 21.38 |
| | 2.0% | 26.79 | 25.02 | 23.44 | 22.02 | 20.74 |
| | 1.5% | 25.79 | 24.15 | 22.68 | 21.36 | 20.16 |
| | 1.0% | 24.90 | 23.37 | 22.00 | 20.76 | 19.63 |

Source: Company data, CMBIGM estimates

Investment Risks

Operation risks

Whether Yunkang can generate profit from operating activities largely depends on the success of its service portfolio. The successful marketing of services will depend on several factors, including relationships with member hospitals of integrated healthcare systems, reputation of self-owned ICLs, renewal of licenses and certificates, supply chain, patents, etc.

Regulatory risks

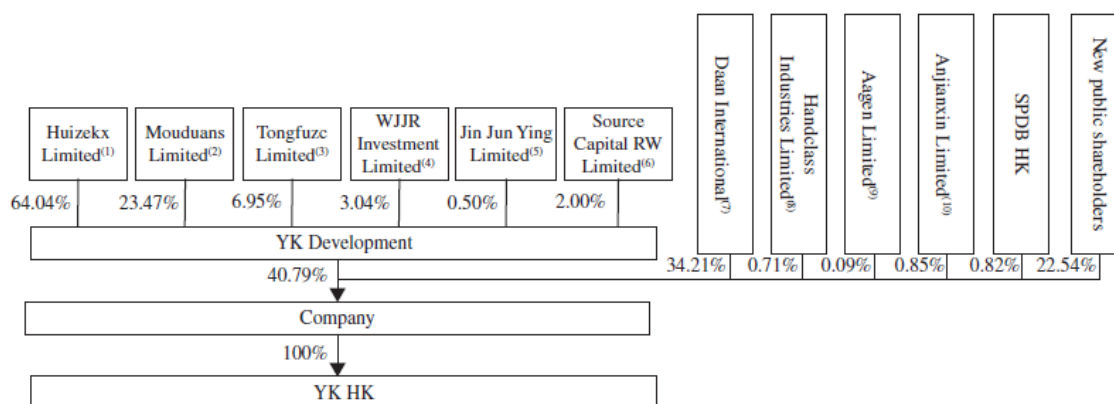
Any failure to comply with applicable laws and regulations, or obtain or maintain, or experience delays in obtaining or maintaining, required regulatory licenses, approvals or certificates may adversely affect Yunkang's business and results of operations. Medical operation services providers in China are required to obtain various certificates, licenses and permits. If the Company fails to obtain or renew the certificates, licenses or permits in a timely manner, the relevant government authorities may impose administrative penalties on it and its operations may be adversely affected.

Competition risks

China's medical operation services market is constantly evolving, including technological and scientific breakthroughs, increasing amounts of data, frequent introductions of new testing devices, emergence of alternative diagnostic methods, and evolving medical standards. If Yunkang is not able to keep pace with these advances and increased customer/patient/member hospitals' expectations as a result of these advances and capture new market opportunities that develop as a result of these advances, its diagnostic testing technologies could be rendered obsolete, its existing services and services it is developing could be rendered less effective, demand for its services may diminish, and its future operations and prospect could suffer. To remain competitive, the Company must continuously upgrade and further optimize its existing services and launch new services, to keep pace with these developments. Yunkang must expend significant resources in order to continuously upgrade existing services or launch new services to keep pace with industry and technological advances.

Appendix: Company Profile

Figure 37: Shareholding structure (after IPO)



Source: Company data, CMBIGM.

Notes: Over-allotment Option not included. (1) Huizekx Limited is wholly-owned by Mr. Zhang Yong; (2) Mouduans Limited is owned as to 80% and 20% by Mr. Wang Tieding, vice president of our Company, and Mr. Lin Yingjia, chief financial officer of our Company, respectively; (3) Tongfuzc Limited is owned as to 50% and 50% by Mr. Zeng Weizhong and Mr. Huang Zemeng, respectively, who are Independent Third Parties; (4) WJJR Investment is owned as to 50% and 50% by Ms. Luo Xingcui and Ms. Shao Jiaru, respectively, who are Independent Third Parties; (5) Jin Jun Ying is wholly-owned by Mr. Lan Fu; (6) Source Capital RW Limited is wholly-owned by Shanghai Yuanzhan Enterprise Management Consulting Limited Partnership, which is owned as to 98% by Heyuan Rongwei.

Figure 38: Directors and management profile

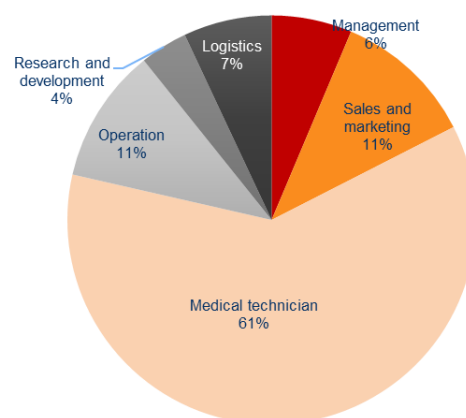
| Name | Age | Date of Joining | Position | Roles and Responsibilities |
|---------------------------|-----|-----------------|---------------------------------------|--|
| Mr. Zhang Yong (张勇) | 50 | May 28, 2008 | Chairman, Executive Director, and CEO | Overall management, strategic planning and decision-making of the Company |
| Dr. He Yunshao (何蕴韶) | 68 | May 28, 2008 | Non-Executive Director | Overseeing the management and strategic development of the Company |
| Mr. Zhou Xinyu (周新宇) | 52 | May 28, 2008 | Non-Executive Director | Overseeing the management and strategic development of the Company |
| Dr. Guo Yunzhao (郭云钊) | 55 | Jul 18, 2016 | Non-Executive Director | Overseeing the management and strategic development of the Company |
| Mr. Zhou Weiqun (周伟群) | 64 | May 05, 2019 | Non-Executive Director | Overseeing the management and strategic development of the Company |
| Mr. Wang Xubo (王旭波) | 46 | Oct 1, 2008 | Executive VP | Assisting the CEO for the overall management, strategic planning and decision making of the Company |
| Mr. Lin Yingjia (林颖嘉) | 43 | Jul 27, 2009 | CFO | Overall management of financial, capital market and secretarial affairs of the Company |
| Mr. Hu Shanghua (胡尚华) | 52 | Mar 01, 2015 | VP | Management of platform and systematic operation system, human resource, administration, legal supervision and brand building |
| Mr. Wang Tieding (王铁丁) | 55 | Jun 23, 2011 | VP | Business operation and management of the Company |

Source: Company data

Figure 39: Employee structure

| Function | # of Staff | % of Total Staff |
|--------------------------|--------------|------------------|
| Management | 152 | 6.4% |
| Sales and marketing | 266 | 11.1% |
| Medical technician | 1,459 | 61.1% |
| Operation | 255 | 10.7% |
| Research and development | 90 | 3.8% |
| Logistics | 167 | 7.0% |
| Total | 2,389 | 100% |

Source: Company data (as of 25 Apr 2022)

Figure 40: Employee number breakdown

Source: Company data (as of 25 Apr 2022)

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

CMBIGM Ratings

| | |
|-----------------------|---|
| BUY | : Stock with potential return of over 15% over next 12 months |
| HOLD | : Stock with potential return of +15% to -10% over next 12 months |
| SELL | : Stock with potential loss of over 10% over next 12 months |
| NOT RATED | : Stock is not rated by CMBIGM |
| OUTPERFORM | : Industry expected to outperform the relevant broad market benchmark over next 12 months |
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