2023 INTERIM REPORT

ADICON 艾迪康

ADICON HOLDINGS LIMITED
艾迪康控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9860)

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DEFINITIONS

"associate(s)"	has the meaning ascribed to it under the Listing Rules
"AI"	artificial intelligence
"Audit Committee"	the audit committee of the Board
"Board"	the board of directors of the Company
"Carlyle"	The Carlyle Group Inc., a company listed on Nasdaq Global Select Market (ticker symbol: CG)
"China" or "the PRC"	the People's Republic of China, but for the purpose of this interim report and for geographical reference only and except where the context requires, references in this interim report to "China" and the "PRC" do not include Hong Kong, the Macau Special Administrative Region and Taiwan
"Corelink"	Corelink Group Limited, a limited liability company incorporated in the British Virgin Islands on January 2, 2008, a company wholly-owned by Mr. LIN Jixun, one of our founders and a non-executive Director
"Corporate Governance Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Company", "our Company" or "the Company"	ADICON Holdings Limited (艾迪康控股有限公司), an exempted limited liability company incorporated in the Cayman Islands on March 20, 2008
"COVID-19"	coronavirus disease 2019, a disease caused by a novel virus designated as severe acute respiratory syndrome coronavirus 2
"CRO"	contract research organization
"Director(s)"	the director(s) of the Company
"Employee Incentive Plans"	the Senior Executive Incentive Plan and the Senior Management Incentive Plan, details of which are set out in the section headed "Employee Incentive Plans" in this interim report
"Global Offering"	the global offering of Shares by the Company as described in the Prospectus
"Group", "our Group" or "the Group"	the Company, its subsidiaries and its consolidated affiliated entities from time to time
"HK$" or "Hong Kong Dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"ICL"	independent clinical laboratory
"IT"	information technology
"LIS"	laboratory information system
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time

DEFINITIONS

"Listing Date"	June 30, 2023
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"Over-allotment Option"	the over-allotment option granted by the Company to the international underwriters of the Global Offering, details of which are described in the announcement of the Company dated July 23, 2023
"Prospectus"	the prospectus issued by the Company on June 19, 2023
"Renminbi" or "RMB"	Renminbi, the lawful currency of China
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) in the share capital of our Company with a par value of US$0.00002 each
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it in section 15 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
"%"	per cent

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Director

Mr. GAO Song

Non-executive Directors

Ms. YANG Ling *(Chairwoman of the Board)*
Mr. LIN Jixun
Ms. FENG Janine Junyuan
Ms. LIM Kooi June

Independent Non-executive Directors

Mr. MI Brian Zihou
Mr. YEH Richard
Mr. ZHANG Wei

AUDIT COMMITTEE

Mr. YEH Richard *(Chairman)*
Mr. ZHANG Wei
Mr. MI Brian Zihou

REMUNERATION COMMITTEE

Mr. MI Brian Zihou *(Chairman)*
Ms. YANG Ling
Mr. ZHANG Wei

NOMINATION COMMITTEE

Ms. YANG Ling *(Chairwoman)*
Mr. ZHANG Wei
Mr. YEH Richard

STRATEGY COMMITTEE

Ms. YANG Ling *(Chairwoman)*
Mr. GAO Song
Mr. MI Brian Zihou

AUTHORIZED REPRESENTATIVES

Ms. YANG Ling
Mr. WANG Lawrence Allen

JOINT COMPANY SECRETARIES

Mr. WANG Lawrence Allen
Ms. SO Ka Man *(FCG, HKFCG (PE))*

REGISTERED OFFICE

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Cayman Islands

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Cricket Square P.O. Box 902
Grand Cayman, KY1-1103
Cayman Islands

CORPORATE INFORMATION

HONG KONG SHARE REGISTRAR

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16 Harcourt Road
Hong Kong

HONG KONG LEGAL ADVISOR

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The Landmark, 15 Queen's Road Central
Central, Hong Kong

AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

COMPLIANCE ADVISOR

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COMPANY WEBSITE

www.adicon.com.cn

STOCK CODE

9860

KEY FINANCIAL HIGHLIGHTS

	For the six months ended June 30,	
	2023 (RMB'000)	2022 (RMB'000)
Revenue	**1,644,113**	2,445,614
Gross Profit	**717,008**	989,070
Profit for the period	**120,258**	375,395
Attributable to:		
Owners of the parent	**111,807**	380,450
Non-controlling interests	**8,451**	(5,055)
Earning per Share		
Basic	**0.17101**	0.58226
Diluted	**0.14206**	0.41797
Adjusted basic earnings per Share (non-IFRS measure)	**0.26721**	**0.48293**
Adjusted diluted earnings per Share (non-IFRS measure)	**0.24736**	**0.44685**
EBITDA (non-IFRS measure)	**268,237**	**545,217**
Adjusted EBITDA (non-IFRS measure)	**331,503**	**481,629**
Adjusted net profit (non-IFRS measure)	**183,149**	**310,495**

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

We are one of the top three ICL service providers in China in terms of total revenues during the years ended December 31, 2020, 2021 and 2023, according to Frost & Sullivan. As of June 30, 2023, we offered comprehensive and best-in-class testing services primarily to hospitals and health check centers through an integrated national network of 33 self-operated ICLs, strategically located to provide testing services across 30 provinces and municipalities. The high quality of our services is backed by our strong performance in terms of international accreditation and comprehensive testing menu. As of June 30, 2023, 18 of our ICLs were accredited with the ISO15189 certification, a recognition of our ability to provide customers with the quality assurance that comes with this international standard. We are committed to providing patients and the general public with high-quality testing services as a leading ICL service provider in China, and becoming a trusted and reliable partner for medical professionals and the general public.

For the six months ended June 30, 2023, we recorded total revenues of RMB1,644.1 million, a decline of 32.8% as compared to the same period in 2022. Our testing volume in the first half of 2023 declined primarily because demand for COVID-19 tests reduced since easing of the zero-COVID policy in late 2022. However, demand for our base testing services rebounded with the lifting of COVID-19 restrictions, which boosted our non-COVID revenue growth.

As a market leader in providing ICL services in China, the success of our operations is underpinned by our industry-leading ICLs, robust logistics capabilities, dedicated sales force, advanced IT infrastructure and strong research and development capabilities, which we believe constitute a solid combination of formidable entry barriers over other market participants:

- *Industry-leading ICLs.* Our comprehensive test offerings are supported by state-of-the-art ICLs equipped with advanced testing technologies, ranging from chemical analyzers, hematology analyzers, histopathology, flow cytometry, molecular pathology, mass spectrometry, next-generation sequencing (NGS), and digital polymerase chain reaction (dPCR). Our advanced testing technologies allow us to efficiently expand into various specialty areas and rapidly develop innovative testing offerings to cater to evolving clinical needs.

- *Robust logistics capabilities.* We operate a cold-chain logistics network covering more than 19,000 customers across 30 provinces and municipalities and over 1,600 cities and counties in China as of June 30, 2023. We deployed more than 750 vehicles and over 1,300 personnel to provide sample logistics services as of the same date. Our logistics capabilities ensure speedy transportation of our samples and timely reporting of testing results.

- *Dedicated sales force.* Our sales and marketing activities further fuel our business growth. As of June 30, 2023, we had a highly trained and educated sales and marketing team of over 1,500 personnel nationwide, over 200 of whom specialize in promoting esoteric testing services. Our sales and marketing team regularly interacts with medical institutions, physicians and key opinion leaders to promote our services, which enables us to align our research and development and marketing priorities with market demand.

- *Advanced IT infrastructure.* Our IT infrastructure is crucial to ensuring swift processing and secure storage of data, as well as effective customer management across our national ICL network. Our proprietary and industry-leading LIS helps us attain tremendous operational efficiencies and enables us to achieve consistent, structured, and standardized operating results and superior customer service. In addition, we developed and launched our proprietary logistics IT system, AiLogistics (艾物流), which digitalizes and automates the sample requisition process through mobile digital technologies and AI recognition technologies.

- *Strong research and development capabilities.* We have a dedicated research and development team led by industry veterans with over 10 years of industry experience and expertise. Our research and development team consists of Ph.D. and master's degree holders specializing in molecular biology, genetics and bio-engineering, toxicology, pathology and other related areas, and are devoted to developing new testing methodologies and improving existing testing processes to enhance cost efficiency. We also proactively collaborate with reputable medical research institutions, universities and hospitals to develop new testing methods and technologies.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Various government policies promote the rapid development of medical services

In 2013, the National Health and Family Planning Commission and State Administration of Traditional Chinese Medicine issued the Several Opinions on Accelerating the Development of Socially-run Medical Institutions (《關於加快發展社會辦醫的若干意見》), allowing non-public medical institutions to be included in the designated scope of medical insurance and allowing doctors to practice at multiple sites to help them simultaneously work in private and public hospitals. In 2016, the National Health and Family Planning Commission issued the Notice on Printing and Distributing the Guiding Principles for the Setup Plan of Medical Institutions (2016-2020) (《關於印發醫療機構設置規劃指導原則 (2016-2020年)的通知》), encouraging private medical institution development and accelerating the formation of a diversified medical institution pattern, so that private hospitals have gradually gained the same position as public hospitals in applying for designated institutions of medical insurance and scientific research and teaching. In addition, by providing service-oriented care with lengthier patient visits and an increased emphasis on preventative care, private hospitals have gradually gained public trust and being perceived more favorably, which in turn encouraged further growth of private hospitals.

Series of healthcare reforms benefiting the ICL market

The PRC government had carried out a series of healthcare reforms and introduced favorable policies aiming to reshape the ICL industry and further support growth and investment in the private sector. In a bid to promote high-quality development of the sector, the National Development and Reform Commission released the 14th Five-Year Plan in May 2022, which unveiled a new road map to spur China's bioeconomy. The new plan pledged to promote the integration and innovation of biotechnology and information technology, as well as accelerate the development of biomedicine, biological breeding, biomaterials, bioenergy and other industries to enhance bioeconomy in terms of scope and strength. In March 2021, the State Council issued Regulations for the Supervision and Administration of Medical Devices (《醫療器械監督管理條例》), which provides that for in-vitro diagnostic reagents that do not have the same product on the market in China, qualified medical institutions can develop required in-vitro diagnostic reagents that are not available in China on their own according to their clinical needs, and use them in their own units under the guidance of medical practitioners. This can be seen as a favorable policy for laboratory developed tests.

Unfulfilled needs of the healthcare services market are driving the growth of the ICL business

China's healthcare services market is rapidly growing. Unfulfilled needs of the market include the following:

- Various initiatives have been rolled out by the PRC government to drive a hierarchical healthcare system, including hospital alliances and publication of standardized referral pathways and reimbursement reform, to further improve patients' access to primary care and balance public medical resources. The promotion of the hierarchical healthcare system is also conducive to the increase in demand for ICL testing.

- There is expected to be an increasing number of hospitals established in lower tier cities, which will drive the demand for ICL testing in these areas.

- In recent years, a series of healthcare reforms have been carried out by the PRC government to optimize hospital revenue structures by reducing their reliance on medication and emphasising examination and treatment, which requires more expertise and the service capabilities of physicians and hospitals. It is expected that revenues generated by examination and treatment will contribute a growing percentage to the total revenues of hospitals. The change in revenue structure and emphasis on examination and treatment may result in an increasing demand for clinical testing, which will lead to more outsourcing demand to ICLs.

- The PRC government has made strong efforts to further increase the accessibility and affordability of healthcare services through its healthcare reforms. Huge investments have been made to construct and upgrade healthcare infrastructure and expand medical insurance coverage. In order to respond to cost pressure, public medical institutions could choose to outsource laboratory testing, a trend that encourages the development of ICLs.

Growing testing volume driven by population aging and better diagnostic services

Population aging has directly led to a surge in the prevalence of chronic diseases and an increase in the number of patients affiliated with serious diseases, both of which have and will continue to drive testing demands, thereby boost the testing volume. In addition, growing health awareness and soaring instances of chronic diseases are pushing people to conduct early detection and take initiatives for preventive measures. Driven by increasing demand from customers, there has been a growing outsourcing rate of tests from health check centers as they are incentivized to seek cost competitive tests performed with premium quality. In addition, the evolving field of precision medicine and emergence of novel technologies have also significantly stimulated the development of China's ICL market. ICLs are increasingly important in the era of precision medicine. It will largely help physicians to integrate individual health data and information from clinical factors, real-time monitoring factors, molecular/diagnosis factors (multi-omics including epigenetics), and exogenous factors (environmental, behavioral, socio-economic, lifestyle) to develop personalized evidenced-based treatment interventions and deliver superior therapeutic outcomes.

Increasing outsourcing demand from hospitals

With increased cost control pressures resulting from healthcare reforms, hospitals have been further incentivized to outsource their clinical testing to ICLs. In addition, the National Healthcare Security Administration has implemented regulations to control healthcare costs, such as Technical Specifications on National Healthcare Security DRGs Grouping and Payment (《國家醫療保障DRG分組與付費技術規範》). Cost control pressures in both public and private hospitals will drive collaboration with ICLs who are able to provide comprehensive and high-quality testing services at lower costs.

Unique advantages of ICLs over hospital-based laboratories

ICL chain operators have broad network coverage, which enables them to more easily connect to and cater to hospitals in different classes across regions. Moreover, once ICLs have expanded to a certain scale, they are capable of performing a large volume of tests with lower costs, benefiting from centralized management, procurement and optimized utilization of equipment, human resources, reagents and facilities. In addition, ICLs generally are capable of performing a broad range of tests. Furthermore, with more capital resources and capital investment, ICLs are faster at introducing and applying new technologies and equipment, and are more proactive in achieving clinical laboratory accreditation and hire experienced and quality personnel to enhance their competitiveness, enabling them to deliver higher quality testing services.

FUTURE DEVELOPMENT AND OUTLOOK

The successful listing of the Company on the Main Board of the Stock Exchange provided further opportunities for our future growth and development. To achieve our mission and vision, we adopt proactive development strategies, including but not limited to the following:

Further strengthening our testing capabilities and portfolio to drive future growth

We plan to further strengthen our routine testing capabilities through extending our routine test portfolios and enhancing cost efficiency through the introduction of new testing technologies. In addition, we believe that our comprehensive esoteric testing services have been crucial to maintaining our leading position in the ICL market. In the past three years, the Company has achieved significant sales growth through new esoteric testing products and expanded its existing market opportunities. The volume of esoteric testing products will be one of our key driving forces of development. The Group will continue to support the development of key technology platforms for next-generation sequencing, flow cytometry and mass spectrometry, and focus on five major disease lines including infections and hepatitis, maternity and pediatrics, blood disorders, reproductive genetics and tumors.

MANAGEMENT DISCUSSION AND ANALYSIS

Enhancing the breadth and depth of our laboratory network by strategically penetrating untapped markets

We intend to further expand our service coverage by opening new ICLs to serve Class III hospitals that are willing to outsource clinical testing services as they face immense cost-cutting pressures.

Since 2019, the Company has launched 13 new ICLs. The Group has gradually increased its production capacity and its expanding national network has enhanced the speed of its market response. Going forward, we intend to focus on its network expansion and co-construction opportunities as a key development driver. Our goal is to efficiently and scientifically deploy our network to consolidate large ICLs, secondary ICLs and jointly-developed projects, among others. We view large ICLs as key strategic bases that allow us to accumulate resources, facilitate our scientific ventures and enhance our regional production capacity. Joint construction projects will allow us to further penetrate prefecture-level cities and fulfill the needs of our customers.

Continuing to develop new testing methods and apply innovative technologies

Continuous innovation in testing technology is the engine of momentum in the development of the ICL industry. We intend to enhance our operating efficiency and offer a broader spectrum of testing items through introducing advanced testing technologies and new testing methods. We will continue to capture the latest technological developments in the market and transform pioneering technologies into diagnostic applications. We plan to further invest in research and development into areas such as mass spectrometry, metagenomics and technologies for early cancer screening. In addition, we plan to fully capitalize on our strong research and development capabilities and leverage our industry resources and collaborations with in vitro diagnostic companies on reagents to advance diagnostic equipment and enrich testing modality. We also plan to invest in our proprietary AI technology to further enhance our test capabilities, including optimizing the data input process, delivering more precise pathological analysis for more accurate testing results and increasing the capacity and bandwidth of pathology tests. The construction of new technology platforms is inseparable from multi-faceted planning and the need for equipment and talent. One of our core strategies is to continue devoting resources toward improving our clinical services, academic knowledge and research and development capabilities.

Further optimizing IT infrastructure and automating our laboratory processes and logistics

Development trends in the healthcare industry and our strategies are centered upon digital transformation. We believe our investments in LIS system upgrades, pathological AI reading, and technological innovations in generative AI will allow us to improve production efficiency. At the same time, we are also of the view that data management, digitalized office systems and private cloud development, among others, provide a secure base for our continuous efforts in business development.

We intend to further optimize and increase the level of automation in our laboratory processes. We will continue to closely monitor the efficiency of our ICLs through various benchmarks and assessments. We will adopt advanced automation systems and implement optimized standards for processes in ICLs to further enhance the cost-efficiency of our operation. We will also further optimize the capacity utilization rate of each subsidiary and project group, improve TAT service capabilities, and reduce costs and increase efficiency by expanding our cooperative ventures with upstream diagnostic service providers.

In line with our philosophy of providing quality services, 18 ICLs within our network have obtained the ISO15189 certification. Our next stage of strategic development requires us to continue this commitment to quality, strictly implement quality assurance standards, regularly assess our work, and continuously monitor various indicators to enhance our reporting quality and strengthen our control of the production process. We also intend to optimize quality control and the performance and accuracy of our inspection services by increasing investments in automation, robotics and network devices.

Selectively pursuing strategic investment and alliances, and other emerging growth opportunities

We intend to expand strategic collaboration and actively seek opportunities for strategic investment and alliances. For example, we intend to explore opportunities to acquire or collaborate with: (i) ICLs with new testing technologies, (ii) regional ICLs with strong performance and market share in their respective markets and specialties, and (iii) international ICLs and companies with new testing technologies seeking to enter the China market. We believe that our track record in implementing new technologies, national footprint and strong logistics and sales and marketing capabilities will enable us to successfully integrate or collaborate with these companies. We intend to further explore emerging opportunities in the direct-to-consumer business.

In addition, we plan to capture opportunities driven by strong demand from biopharmaceutical companies and CROs in China in relation to clinical studies. We aim to become a central ICL in China for global clinical trials conducted by international and domestic biopharmaceutical companies and CROs. We currently have a facility in Shanghai accredited by the College of American Pathologists as the primary ICL servicing our biopharmaceutical and CRO clients. We believe that our current facilities and testing services will be able to cater to the growing testing demand from this sector and will continue to target it for future growth. At present, we work with partners such as Guardant Health, a leading precision oncology company, to bring a world-class product portfolio to pharmaceutical companies and CRO customers in China. The CRO business will become another driving force for our future development, allowing us to closely follow the pace of accelerated innovations in biotechnology and grasp opportunities for growth.

The current market environment coexists with opportunities and risks, and the market has great potential and benefits from a number of policies, such as medical insurance control and hospital upgrading policies to promote the rapid growth of the testing market, among others. Driven by these favorable policies, the total market size and penetration rate of the ICL industry are expected to increase rapidly. We believe that through our quality operations and continuous investment in technology and academic knowledge, we will facilitate the fulfillment of national goals on medical reform, reduce expenses and increase income for hospitals and medical institutions, bring more accurate and timely testing to patients, and create value for society.

FINANCIAL REVIEW

Selected Items from the Unaudited Consolidated Statement of Profit or Loss and Other Comprehensive Income

Revenue

Our revenue for the six months ended June 30, 2023 amounted to RMB1,644.1 million, representing a decrease of 32.8% as compared with RMB2,445.6 million for the six months ended June 30, 2022, primarily due to significant decrease in demand for COVID-19 tests since easing of the zero-COVID policy. However, with the lifting of COVID-19 restrictions, demand for our base testing services rebounded and boosted our non-COVID revenue growth.

Cost of Sales

Our cost of sales for the six months ended June 30, 2023 amounted to RMB927.1 million, representing a decrease of 36.3% as compared with RMB1,456.5 million for the six months ended June 30, 2022. This was in line with changes in our revenue as our costs in connection with administering COVID-19 tests decreased in parallel with COVID-19 testing volume.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit and Gross Profit Margin

Based on the factors described above, the gross profit of our Group was RMB717.0 million for the six months ended June 30, 2023, as compared with RMB989.1 million for the six months ended June 30, 2022.

Gross profit margin is calculated as gross profit divided by revenue. The overall gross profit margin of our Group was 43.6% for the six months ended June 30, 2023, compared with 40.4% for the six months ended June 30, 2022. The increase in gross profit margin was primarily due to the reduction in raw material costs from the prior year and the cost control optimization measures we adopted in the first half of 2023.

Selling and Marketing Expenses

Our selling and marketing expenses for the six months ended June 30, 2023 amounted to RMB233.7 million, representing a decrease of 20.7% as compared with RMB294.7 million for the six months ended June 30, 2022. This was primarily due to decreases of RMB33.9 million in staff costs and RMB23.1 million in marketing expenses in connection with our COVID-19 testing business.

Administrative Expenses

Administrative expenses primarily consisted of (i) staff costs in relation to the administrative personnel, (ii) office expenses, including rental, depreciation and amortization, and (iii) consulting and professional service fees.

Our administrative expenses remained stable at RMB136.6 million for the six months ended June 30, 2023, as compared with RMB139.0 million for the six months ended June 30, 2022.

Research and Development Expenses

Research and development expenses primarily consisted of (i) staff costs in relation to the research and development personnel, (ii) laboratory expenses, including rental, depreciation and amortization, and (iii) reagent and consumables cost used in the research and development processes.

Our research and development expenses for the six months ended June 30, 2023 amounted to RMB69.1 million, representing a decrease of 13.6% as compared with RMB80.0 million for the six months ended June 30, 2022. This was primarily due to a decrease of RMB12.3 million in costs for reagents and consumables purchased for research and development efforts.

Other Expenses

Other expenses primarily consisted of net of reversal on inventories, bank charges, foreign exchange losses or gains, net, losses on disposal of property and equipment and other intangible assets and losses on disposal of items of right-of-use assets.

Our other expenses for the six months ended June 30, 2023 amounted to RMB66.6 million, representing a decrease of 42.0% as compared with RMB114.9 million for the six months ended June 30, 2022. This was primarily because we made provisions for expected credit loss of RMB47.1 million.

Listing Expenses

During the six months ended June 30, 2023, our Company incurred listing expenses of RMB59.0 million in connection with the Global Offering.

Other Income and Gains

Other income and gains primarily consisted of (i) discretionary government grants income, including various one-off government grants to support employment, innovation and technology efforts, (ii) bank interest income, (iii) gains on contingent consideration, and (iv) gains on derivative financial instruments.

Our other income and gains for the six months ended June 30, 2023 amounted to RMB34.0 million, representing an increase of 188.1% as compared with RMB11.8 million for the six months ended June 30, 2022. This was primarily due to (i) an additional RMB15.3 million in fair value gain on put option over non-controlling interests under valuation adjustment mechanism relating to our acquisitions of Shangrao Adicon and Jiangxi Jince, (ii) an increase of RMB4.5 million in bank interest income; and (iii) an increase of RMB1.7 million in government grants, primarily consist of employment and enterprise supporting grants and high-tech enterprise grants.

Finance Costs

Finance costs primarily consisted of (i) interest expenses on bank borrowings, lease liabilities and loans from shareholders, and (ii) transaction costs for derivative financial instruments.

Our finance costs for the six months ended June 30, 2023 amounted to RMB45.9 million, representing an increase of 383.2% as compared with RMB9.5 million for the six months ended June 30, 2022, primarily due to an increase of RMB36.1 million in interest from bank borrowings.

Income Tax Expenses

Income tax expenses consisted of current income tax and deferred income tax.

Our income tax expenses for the six months ended June 30, 2023 amounted to RMB31.5 million, representing a decrease of 48.4% as compared with RMB61.0 million for the six months ended June 30, 2022, in line with the decrease in our profit before tax adjusting for non-taxable fair value gains and losses and share-based payment expenses for the corresponding period in 2023.

Profit for the Period

As a result of the foregoing, our profit for the period decreased by 68.0% from RMB375.4 million for the six months ended June 30, 2022 to RMB120.3 million for the corresponding period in 2023.

Non-IFRS Measures

To supplement our consolidated financial statements, which are presented in accordance with IFRS, we also use non-IFRS measures, namely EBITDA (non-IFRS measure), adjusted EBITDA (non-IFRS measure), and adjusted net profit (non-IFRS measure) as additional financial measures, which are not required by or presented in accordance with IFRS. We believe that such non-IFRS measures facilitate comparisons of operating performance from period to period and company to company by eliminating potential impacts of certain items. We exclude share-based compensation expenses, listing expenses and fair value gains on convertible redeemable preferred shares at FVTPL when presenting non-IFRS measures. Share-based compensation expenses are non-cash in nature and do not result in cash outflow, and the adjustment has been consistently made for the six months ended June 30, 2022 and 2023. We also excluded listing expenses with respect to the Global Offering. In addition, we account for the convertible preferred shares as financial liabilities at fair value through profit or loss. The convertible preferred shares automatically converted into ordinary shares upon completion of the Global Offering, and no further loss or gain on fair value changes will be recognized going forward. The reconciling item is a non-cash and non-operating item, and does not result in cashflow impacts.

MANAGEMENT DISCUSSION AND ANALYSIS

We believe that such measures provide useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as it helps our management. However, our presentation of EBITDA (non-IFRS measure), adjusted EBITDA (non-IFRS measure) and adjusted net profit (non-IFRS measure) may not be comparable to similarly titled measure presented by other companies. The use of such non-IFRS measures has limitations as an analytical tool, and you should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under IFRS.

We define EBITDA (non-IFRS measure) as profit before tax plus depreciation and amortization expenses and finance costs, minus bank interest income. We define adjusted EBITDA (non-IFRS measure) as EBITDA (non-IFRS measure) for the period adjusted by adding back share-based compensation expenses, listing expenses and fair value gain on convertible redeemable preferred shares at FVTPL.

	For the six months ended June 30,	
	2023 (RMB'000)	2022 (RMB'000)
Profit before tax	**151,731**	436,387
Add:		
Depreciation	**75,515**	100,494
Amortization	**3,119**	2,344
Finance costs	**45,853**	9,504
Less:		
Bank interest income	**7,981**	3,512
EBITDA (non-IFRS measure)	**268,237**	545,217
Add:		
Share-based compensation expenses	**15,776**	10,026
Listing expenses	**58,965**	11,683
Fair value gain on convertible redeemable preferred shares at fair value through profit or loss ("**FVTPL**")	**(11,475)**	(85,297)
Adjusted EBITDA (non-IFRS measure)	**331,503**	481,629

We define adjusted net profit (non-IFRS measure) as profit for the period adjusted by adding back net of tax, share-based compensation expenses, listing expenses and fair value gain on convertible redeemable preferred shares at FVTPL.

	For the six months ended June 30,	
	2023 (RMB'000)	2022 (RMB'000)
Profit for the period	**120,258**	375,395
Add:		
Share-based compensation expenses	**15,776**	10,026
Listing expenses	**58,590**	10,371
Fair value gain on convertible redeemable preferred shares at FVTPL	**(11,475)**	(85,297)
Adjusted net profit (non-IFRS measure)	**183,149**	310,495

We define (i) non-IFRS adjusted basic earnings per Share as profit attributable to ordinary equity holders of the parent adding share-based compensation expenses, listing expenses and fair value gain on convertible redeemable preferred shares at FVTPL divided by weighted average number of ordinary shares for the purpose of calculating basic earnings per Share; and (ii) non-IFRS adjusted diluted earnings per Share as profit attributable to ordinary equity holders of the parent adding share-based compensation expenses, listing expenses and fair value gain on convertible redeemable preferred shares at FVTPL divided by weighted average number of ordinary shares for the purpose of calculating diluted earnings per Share.

	Six months ended June 30	
	2023 (Unaudited) (RMB'000)	2022 (Unaudited) (RMB'000)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Expressed in RMB per share)		
Basic	**0.17101**	0.58226
Diluted	**0.14206**	0.41797
Adjusted basic earnings per Share (non-IFRS measure)	**0.26721**	0.48293
Adjusted diluted earnings per Share (non-IFRS measure)	**0.24736**	0.44685

Selected Items from the Unaudited Consolidated Statement of Financial Position

Current Assets/Liabilities

Our total current assets decreased to RMB3,752.0 million as of June 30, 2023 from RMB3,895.0 million as of December 31, 2022, and our total current liabilities decreased to RMB2,034.4 million as of June 30, 2023 from RMB2,418.4 million as of December 31, 2022.

Inventories

Inventories consisted of reagents, finished goods and consumables. Finished goods refer to equipment and instruments our Company sells to the customers.

Our inventories as of June 30, 2023 amounted to RMB152.0 million, representing a decrease of 33.7% as compared with RMB229.4 million as of December 31, 2022, primarily due to our decline in purchases of reagents and consumables for administering COVID-19 tests.

Trade and Bills Receivables

Our trade and bill receivables as of June 30, 2023 amounted to RMB1,785.3 million, representing a decrease of 3.9% as compared with RMB1,856.8 million as of December 31, 2022. This was primarily due to enhanced measures taken by the Company to improve recoverability of its trade receivables.

MANAGEMENT DISCUSSION AND ANALYSIS

Prepayments, Deposits and Other Receivables

Prepayments, deposits and other receivables primarily consisted of (i) prepayments, (ii) deposits, (iii) value-added tax, and (iv) advance lease payments for short-term leases.

Our prepayments, deposits and other receivables as of June 30, 2023 amounted to RMB137.4 million, representing a decrease of 2.3% as compared with RMB140.7 million as of December 31, 2022, primarily due to a decrease in deferred listing expenses of RMB12.7 million, which was partially offset by (i) an increase of RMB4.9 million in advanced payments by our hospital clients; and (ii) an increase of RMB4.1 million in recoverable value-added tax from our cooperation with Guardant Health (NASDAQ: GH), a leading precision oncology company.

Trade and Bills Payables

Our trade and bills payables as of June 30, 2023 amounted to RMB882.4 million, representing a decrease of 17.0% as compared with RMB1,062.5 million as of December 31, 2022 in line with changes in our cost of sales.

Financial Assets at FVPTL

Our non-current financial assets at FVPTL consist of interest rate cap contracts with certain financial institutions, in order to manage the interest rate risks on a loan facility. Our non-current financial assets at FVPTL amounted to RMB8.4 million as of June 30, 2023, representing an increase of 3.7% as compared with RMB8.1 million as of December 31, 2022. This was primarily due to the recording of RMB29,000 (unaudited) in fair value gain.

Our current financial assets at FVPTL amounted to RMB50.6 million as of June 30, 2023, as compared with nil as of December 31, 2022. This was primarily due to the entry by the Group into an investment in a segregated portfolio account.

Other Payables and Accruals

Other payables mainly included payables for purchase of property, plant and equipment, deposits and other tax payables, which were trade in nature, non-interest bearing and repayable on demand. Accruals mainly included accrued operating expenses, professional services fees and utilities expenses.

Our other payables and accruals as of June 30, 2023 amounted to RMB885.7 million, representing a decrease of 10.1% as compared with RMB985.1 million as of December 31, 2022, primarily due to decreases of (i) RMB80.4 million in payroll payables, mainly comprising employee bonuses and social insurance paid when due, and (ii) RMB44.1 million in accruals, which mainly consist of fees for professional consultants and service providers we engaged for sample collection and transportation, information intake and on-site management. Such decreases were partially offset by an increase in accrued listing expenses of RMB23.9 million.

Contract Liabilities

Contract liabilities represented the equipment and service payment received from customers in advance.

Our contract liabilities as of June 30, 2023 amounted to RMB26.0 million, representing an increase of 23.2% as compared with RMB21.1 million as of December 31, 2022, primarily due to the increase in advances received from customers in line with our business expansion.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Capital Resources

During the six months ended June 30, 2023, our Group funded cash requirements principally from cash generated from the operating activities. As of June 30, 2023, we had cash and cash equivalents of RMB1,644.3 million, representing an increase of 69.4% as compared with RMB970.4 million as of June 30, 2022. This increase was primarily due to our working capital management and the net proceeds we received from the Global Offering.

Indebtedness

During the six months ended June 30, 2023, we incurred borrowings to finance our capital expenditure and working capital requirements, which were primarily denominated in RMB. All of the interest-bearing bank borrowings during the six months ended June 30, 2023 were loans with effective annual interest rates ranging from 3.50% to 7.42% as of June 30, 2023.

Contingent Liabilities

As of June 30, 2023, we were not involved in any material legal, arbitration or administrative proceedings that, if adversely determined, would be expected to materially and adversely affect our financial position or result of operations.

Capital Expenditures

Capital expenditures primarily consisted of expenditures on (i) property and equipment, and (ii) other intangible assets, which primarily include patents, software and customer relationship.

Our capital expenditures for the six months ended June 30, 2023 amounted to RMB75.6 million, representing a decrease of 30.2% as compared with RMB108.3 million for the six months ended June 30, 2022, in line with the decrease in our cost of sales.

Capital Commitments

Capital commitments primarily constituted our purchase of property and equipment for the construction, expansion and enhancement of our facilities. The following table sets forth our capital expenditures as of the date indicated:

	As of	
	June 30, 2023 (RMB'000)	December 31, 2022 (RMB'000)
Contracted, but not provided for acquisition of property and equipment	**13,963**	15,418
Total	**13,963**	15,418

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Ratios

The following table sets forth certain of the key financial ratios as of the dates or for the periods indicated:

	As of	
	June 30, 2023	December 31, 2022
Liquidity ratios		
Current ratio [(1)]	**1.84**	1.61
Quick ratio [(2)]	**1.77**	1.52
Capital adequacy ratios		
Gearing ratio [(3)]	**0.78**	1.86

Notes:

(1) Current assets divided by current liabilities as of the end of the periods.

(2) Current assets less inventories divided by current liabilities as of the end of the periods.

(3) Total borrowings divided by total equity as of the end of the periods.

Charges on Assets

As of June 30, 2023, the Group had charged the shares of certain offshore subsidiaries as security for its bank loans.

Future Plans for Material Investments

As of the date of this interim report, the Group does not have any concrete committed plans for material investments and capital assets in 2023.

Foreign Exchange Risk and Hedging

We primarily operate in the PRC with most of our transactions denominated and settled in RMB. However, certain of our time deposits, bank balances and cash and other financial assets are denominated in foreign currencies and exposed to foreign currency risks. We currently do not have a foreign currency hedging policy. However, we manage foreign exchange risks by closely monitoring our foreign exchange exposure and will consider hedging against significant foreign exchange risks should the need arise.

Material Acquisitions, Significant Investments and Disposals

During the six months ended June 30, 2023, we did not make any material acquisitions, significant investments or disposals of subsidiaries, associates and joint ventures.

Employees and Remuneration

As of June 30, 2023, we had a total of 5,917 employees (as of June 30, 2022: 5,659). For the six months ended June 30, 2023, we incurred total remuneration costs of RMB575.8 million (for the six months ended June 30, 2022: RMB506.7 million). The remuneration packages of our employees include salaries, benefits, social insurance and share based compensation, the amount of which is generally determined by their qualifications, industry experience, position and performance. We contribute to social insurance and housing provident funds as required by the PRC laws and regulations.

To maintain the quality, knowledge and skill levels of the workforce, our Group provides regular and specialized trainings tailored to the needs of employees in different departments, including regular training sessions conducted by senior employees or third party consultants covering various aspects of the our business operations.

CORPORATE GOVERNANCE AND OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As of June 30, 2023, the interests and short positions of the Directors or chief executives of the Company and their respective associates in any of the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name	Nature of Interest	Number of Shares	Approximate percentage of interest in the Company [3]
Mr. GAO Song [1]	Interests in a controlled corporation	303,750 (L)	0.04%
	Beneficial owner	13,349,646 (L)	1.85%
Mr. LIN Jixun [2]	Interest in a controlled corporation	90,061,994 (L)	12.45%

Remark: The letter (L) denotes long position in such securities.

Notes:

(1) Mr. GAO Song is deemed to be interested in 303,750 Shares directly held by his wholly-owned investment holding company, Nice Sure Holding Co., Limited. In addition, he has been granted RSUs and options under the Employee Incentive Plans entitling him to receive up to an aggregate of 13,349,646 Shares.

(2) Mr. LIN Jixun is deemed to be interested in 90,061,994 Shares directly held by his wholly-owned company, Corelink.

(3) Calculated based on the number of the total issued share capital of the Company as of June 30, 2023, being 723,452,291 Shares.

Save as disclosed above, as of June 30, 2023, to the best knowledge of the Directors of the Company, none of the Directors or chief executive had interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (with the meaning of Part XV of the SFO) as recorded in the register required to be kept, pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As of June 30, 2023, the following persons (other than the Directors or chief executives of the Company or their respective associates) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO or will, directly or indirectly, be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of the Company or any other members of the Group:

Name	Nature of Interest	Number of Shares	Approximate Percentage of Interest in the Company (5)
Pearl Group Limited (1)	Beneficial owner	281,541,805 (L)	38.92%
Corelink (2)	Beneficial owner	90,061,994 (L)	12.45%
Mega Stream (3)	Beneficial owner	72,005,994 (L)	9.95%
Trident Trust Company (HK) Limited (4)	Interest in a controlled corporation	66,205,516 (L)	9.15%
Ingenuity Capital Holdings Limited (4)	Beneficial owner	52,743,281 (L)	7.29%

Remark: The letter (L) denotes long position in such securities.

Notes:

(1) Pearl Group Limited is 94.57% owned by Carlyle Asia Partners V, L.P. and 5.43% owned by CAP V Co-Investment, L.P.. The general partner of Carlyle Asia Partners V, L.P. and CAP V Co-Investment, L.P. is CAP V General Partner, L.P.. The general partner of CAP V General Partner, L.P. is CAP V, L.L.C., an indirect subsidiary of Carlyle. CAP V, L.L.C. is wholly-owned by TC Group Cayman Investment Holdings Sub L.P.. The general partner of TC Group Cayman Investment Holdings Sub L.P. is TC Group Cayman Investment Holdings L.P.. The general partner of TC Group Cayman Investment Holdings L.P. is CG Subsidiary Holdings L.L.C.. The managing member of CG Subsidiary Holdings L.L.C. is Carlyle Holdings II L.L.C.. The managing member of Carlyle Holdings II L.L.C. is Carlyle Holdings II GP L.L.C.. The sole member of Carlyle Holdings II GP L.L.C. is Carlyle. As such, under the SFO, each of Carlyle Asia Partners V, L.P., CAP V General Partner, L.P., CAP V L.L.C., TC Group Cayman Investment Holdings Sub L.P., TC Group Cayman Investment Holdings L.P., CG Subsidiary Holdings L.L.C., Carlyle Holdings II L.L.C., Carlyle Holdings II GP L.L.C. and Carlyle is deemed to be interested in the equity interests held by Pearl Group Limited.

(2) Corelink is wholly-owned by Mr. LIN Jixun, one of our founders and a non-executive Director. As such, Mr. LIN Jixun is deemed to be interested in the equity interests held by Corelink.

(3) Mega Stream is wholly-owned by Mr. LIN Feng, one of our founders. As such, Mr. LIN Feng is deemed to be interested in the equity interests held by Corelink.

(4) Ingenuity Capital Holdings Limited and Proteus Capital Holdings Limited are special purpose vehicles wholly owned by the Perseverance Capital Trust and the Callisto Capital Trust, respectively, both of which are managed by Trident Trust Company (HK) Limited for the purpose of holding Shares under the Employee Incentive Plans. As such, Trident Trust Company (HK) Limited is deemed to be interested in the equity interests held by each of Ingenuity Capital Holdings Limited and Proteus Capital Holdings Limited. As of June 30, 2023, Proteus Capital Holdings Limited held 13,462,265 Shares, amounting to 1.86% of the total issued share capital of our Company.

(5) Calculated based on the number of the total issued share capital of the Company as of June 30, 2023, being 723,452,291 Shares.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company, other than the Directors and the chief executive of the Company, as of June 30, 2023, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

EMPLOYEE INCENTIVE PLANS

Prior to the Global Offering, the Company adopted the Senior Executive Incentive Plan and Senior Management Incentive Plan. The Employee Incentive Plans were adopted and approved on July 9, 2019, and were subsequently amended and restated on November 7, 2020, April 14, 2021, October 1, 2021 and June 3, 2023. The Senior Executive Incentive Plan is for retaining and motivating the senior executive of the Group, and the Senior Management Incentive Plan is for retaining and motivating the other senior management members of the Group.

The underlying Shares of the options and/or restricted share units under the Employee Incentive Plans had already been fully issued and are held by Ingenuity Capital Holdings Limited and Proteus Capital Holdings Limited, respectively, which are the special purpose vehicles wholly owned by the Perseverance Capital Trust and the Callisto Capital Trust, respectively. Each of Perseverance Capital Trust and Callisto Capital Trust is managed by Trident Trust Company (HK) Limited. The Company has granted options and/or RSUs with respect to the Shares held by Ingenuity Capital Holdings Limited and Proteus Capital Holdings Limited before the Listing. After the Listing, no further options or awards may be granted under the Employee Incentive Plans. The terms of the Employee Incentive Plans are substantially similar and not subject to Chapter 17 of the Listing Rules.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules and regularly reviews its compliance with the Corporate Governance Code.

The Company was listed on June 30, 2023. To the best knowledge of the Directors, the Company has complied with all applicable code provisions of the Corporate Governance Code from the Listing Date and up to the date of this interim report.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiries of the Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code from the Listing Date and up to the date of this interim report.

The Company's senior management, who are likely to be in possession of inside information of the Company, are also subject to the Model Code for securities transactions. During the period from the Listing Date and up to the date of this interim report, we did not detect any incident of non-compliance with the Model Code by the Directors and the Company's senior management.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any member of the Group has purchased, sold or redeemed any of the listed securities of the Company from the Listing Date and up to the date of this interim report.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Group's unaudited consolidated interim financial statements for the six months ended June 30, 2023 have been reviewed by the Company's independent auditor, Ernst & Young, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee comprises three independent non-executive Directors, namely Mr. YEH Richard (chairman), Mr. MI Brian Zihou and Mr. ZHANG Wei. The Audit Committee is governed by terms of reference that are in compliance with the requirements of the Listing Rules.

The Audit Committee has jointly reviewed with the Company's senior management and independent auditor the unaudited consolidated interim financial information of the Group for the six months ended June 30, 2023 and this interim report. The Audit Committee has also discussed the accounting policies and practices adopted by the Company and internal control measures with senior management. The Audit Committee does not have any disagreement with the accounting treatment adopted by the Company.

USE OF PROCEEDS

The Global Offering

The total net proceeds (after deduction of underwriting commissions and related costs and expenses) from the Global Offering amounted to RMB188.5 million.

The Over-allotment Option

On July 26, 2023, the Company issued a total of 3,902,500 ordinary shares with a nominal value of US$0.00002 each at the price of HK$12.32 per share. The Company received additional net proceeds of RMB42.4 million (after deducting the underwriting commissions and other estimated expenses payable by the Company).

CORPORATE GOVERNANCE AND OTHER INFORMATION

Utilization breakdown and timeline

The net proceeds raised from the Global Offering and the Over-allotment Option will be used in the manner as previously disclosed in the section headed "Future Plans and Use of Proceeds" in the Prospectus. Since the Company was listed on June 30, 2023, the net proceeds have not been utilized as of June 30, 2023. The Company has no plans to deviate from the use of proceeds and the business strategies disclosed in the Prospectus. Details of the use of proceeds are set forth as below:

Description	Total percentage amount	Intended use of proceeds (RMB in millions)	Utilized amount as of June 30, 2023 (RMB in millions)	Unutilized amount as of June 30, 2023 (RMB in millions)	Expected timeline for utilizing for the unutilized net proceeds
Strengthening our routine and esoteric testing capabilities	15.0%	34.6	—	34.6	December 31, 2024
Network expansion through establishing new laboratories, partnership investments and development of new channels	25.0%	57.7	—	57.7	December 31, 2024
Business development activities to form strategic collaborations with industry participants as well as strategic and bolt-on acquisitions	25.0%	57.7	—	57.7	December 31, 2024
Upgrade and expansion of our existing laboratories	15.0%	34.6	—	34.6	December 31, 2024
Investment in operating infrastructure including logistics facilities, artificial intelligence technologies and IT infrastructure	10.0%	23.1	—	23.1	December 31, 2024
Working capital and general corporate purpose	10.0%	23.1	—	23.1	December 31, 2024
Total	100.0%	230.9	—	230.9	

EVENTS AFTER THE SIX MONTHS ENDED JUNE 30, 2023

Save for the Over-allotment Option, the Directors are not aware of any significant events requiring disclosure that took place subsequent to June 30, 2023 and up to the date of this interim report.

INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended June 30, 2023.

CHANGES IN INFORMATION OF DIRECTORS

The Company is not aware of any changes in the information of Directors which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the Prospectus and up to June 30, 2023.

CONTINUING DISCLOSURE OBLIGATION PURSUANT TO THE LISTING RULES

As of June 30, 2023, the Directors were not aware of any circumstances giving rise to the disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

By order of the Board
ADICON Holdings Limited
Ms. YANG Ling
Chairwoman

Hong Kong, August 23, 2023

INDEPENDENT REVIEW REPORT

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To the board of directors of ADICON Holdings Limited
(Incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 27 to 60, which comprises the condensed consolidated statement of financial position of ADICON Holdings Limited (the "Company") and its subsidiaries (the "Group") as at 30 June 2023 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") issued by the International Accounting Standards Board ("IASB"). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong

23 August 2023

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June	
	Notes	**2023 (Unaudited) RMB'000**	2022 (Unaudited) RMB'000
REVENUE	4	**1,644,113**	2,445,614
Cost of sales		**(927,105)**	(1,456,544)
Gross profit		**717,008**	989,070
Other income and gains		**34,007**	11,757
Selling and marketing expenses		**(233,654)**	(294,669)
Administrative expenses		**(136,648)**	(138,994)
Research and development costs		**(69,051)**	(79,985)
Other expenses		**(66,588)**	(114,902)
Listing expenses		**(58,965)**	(11,683)
Finance costs		**(45,853)**	(9,504)
Fair value gains on financial liabilities at FVTPL		**11,475**	85,297
PROFIT BEFORE TAX	5	**151,731**	436,387
Income tax expense	6	**(31,473)**	(60,992)
PROFIT FOR THE PERIOD		**120,258**	375,395
Attributable to:			
Owners of the parent		**111,807**	380,450
Non-controlling interests		**8,451**	(5,055)
		120,258	375,395

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Six months ended 30 June 2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
OTHER COMPREHENSIVE INCOME			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of the financial statement of the subsidiaries		**(12,636)**	(15,818)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of the financial statements of the Company		**(45,689)**	(12,346)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		**(58,325)**	(28,164)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**61,933**	347,231
Attributable to:			
Owners of the parent		**53,482**	352,286
Non-controlling interests		**8,451**	(5,055)
		61,933	347,231
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Expressed in RMB per share)			
Basic	8	**0.17101**	0.58226
Diluted	8	**0.14206**	0.41797

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
NON-CURRENT ASSETS			
Property and equipment	9	408,004	375,428
Right-of-use assets		195,404	218,853
Goodwill		79,802	79,802
Other intangible assets		142,872	143,709
Deferred tax assets		149,744	118,403
Prepayments, deposits and other receivables	11	17,854	12,839
Amounts due from related parties	19	2,099	2,123
Financial assets at fair value through profit or loss	12	8,438	8,104
Total non-current assets		1,004,217	959,261
CURRENT ASSETS			
Inventories		152,036	229,413
Trade and bills receivables	10	1,785,259	1,856,847
Prepayments, deposits and other receivables	11	119,525	127,860
Financial assets at fair value through profit or loss	12	50,581	—
Amounts due from related parties	19	319	227
Cash and bank balances		1,644,262	1,680,625
Total current assets		3,751,982	3,894,972
CURRENT LIABILITIES			
Trade and bills payables	13	882,374	1,062,452
Other payables and accruals	14	885,696	985,104
Contract liabilities		25,957	21,060
Interest-bearing bank borrowings		79,551	112,792
Profit tax payable		88,226	124,553
Amounts due to related parties	19	24,087	61,071
Lease liabilities		48,521	51,400
Total current liabilities		2,034,412	2,418,432
NET CURRENT ASSETS		1,717,570	1,476,540
TOTAL ASSETS LESS CURRENT LIABILITIES		2,721,787	2,435,801

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**1,061,134**	1,023,329
Lease liabilities		**158,180**	182,455
Deferred tax liabilities		**30,969**	28,502
Convertible redeemable preferred shares	15	**—**	589,179
Total non-current liabilities		**1,250,283**	1,823,465
NET ASSETS		**1,471,504**	612,336
EQUITY			
Equity attributable to owners of the parent			
Share capital	16	**96**	86
Reserves		**1,365,252**	510,738
		1,365,348	510,824
Non-controlling interests		**106,156**	101,512
Total equity		**1,471,504**	612,336

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	Attributable to owners of the parent								
	Share capital RMB'000 (Note 16)	Capital reserve RMB'000	Share option reserve RMB'000	Other reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2023 (audited)	86	612,250	118,707	(554,320)	(72,288)	406,389	510,824	101,512	612,336
Profit for the period	—	—	—	—	—	111,807	111,807	8,451	120,258
Other comprehensive income for the period:									
Exchange differences on translation of the financial statement of the subsidiaries	—	—	—	—	(12,636)	—	(12,636)	—	(12,636)
Exchange differences on translation of the financial statement of the Company	—	—	—	—	(45,689)	—	(45,689)	—	(45,689)
Capital injection into a subsidiary by non-controlling shareholders	—	—	—	—	—	—	—	2,900	2,900
Issue of shares	2	196,374	—	—	—	—	196,376	—	196,376
Share issue expenses	—	(10,419)	—	—	—	—	(10,419)	—	(10,419)
Automatic conversion of convertible redeemable preferred shares upon global offering	8	599,301	—	—	—	—	599,309	—	599,309
Share awards (Note 17)	—	—	15,776	—	—	—	15,776	—	15,776
Dividends paid to non-controlling shareholders	—	—	—	—	—	—	—	(6,707)	(6,707)
At 30 June 2023 (unaudited)	96	1,397,506	134,483	(554,320)	(130,613)	518,196	1,365,348	106,156	1,471,504

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Attributable to owners of the parent								
	Share capital RMB'000 (Note 16)	Capital reserve RMB'000	Share option reserve RMB'000	Other reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2022 (audited)	86	612,250	103,658	(510,511)	8,145	590,613	804,241	48,606	852,847
Profit for the period	—	—	—	—	—	380,450	380,450	(5,055)	375,395
Other comprehensive income for the period:									
Exchange differences on translation of the financial statement of the subsidiaries	—	—	—	—	(15,818)	—	(15,818)	—	(15,818)
Exchange differences on translation of the financial statement of the Company	—	—	—	—	(12,346)	—	(12,346)	—	(12,346)
Capital injection into a subsidiary by non-controlling shareholders	—	—	—	—	—	—	—	10,405	10,405
Acquisition of subsidiaries	—	—	—	—	—	—	—	33,440	33,440
Share awards (Note 17)	—	—	10,026	—	—	—	10,026	—	10,026
Dividends declared	—	—	—	—	—	(865,017)	(865,017)	—	(865,017)
Put option over non-controlling interests (Note 14 (b))	—	—	—	(43,809)	—	—	(43,809)	—	(43,809)
At 30 June 2022 (unaudited)	86	612,250	113,684	(554,320)	(20,019)	106,046	257,727	87,396	345,123

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	Notes	Six months ended 30 June 2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		151,731	436,387
Adjustments for:			
Bank interest income	5	(7,981)	(3,512)
Foreign exchange losses, net	5	993	2,697
Finance costs	5	45,853	9,504
Loss on disposal of property and equipment and other intangible assets	5	2,408	315
Gain on disposal of items of right-of-use assets, net	5	—	(2)
Depreciation of property and equipment	5	45,374	72,702
Depreciation of right-of-use assets	5	30,141	27,792
Amortisation of intangible assets	5	3,119	2,344
Impairment losses, net of reversal:			
– Financial assets under expected credit losses ("ECL") model	5	47,068	109,919
– Inventories	5	13,388	—
Share awards	5	15,776	10,026
Fair value gain on convertible redeemable preferred shares	5	(11,475)	(85,297)
Fair value gain on put option over NCI	5	(15,305)	—
Fair value gain on derivative financial instruments	5	(29)	—
		321,061	582,875
Decrease/(increase) in inventories		63,989	(47,565)
Decrease/(increase) in trade and bills receivables		24,302	(888,373)
Decrease/(increase) in prepayments, deposits and other receivables		906	(36,119)
(Decrease)/increase in trade payables		(217,032)	296,985
(Decrease)/increase in other payables and accruals		(91,658)	133,528
Cash generated from operations		101,568	41,331
Income tax paid		(96,675)	(47,045)
Net cash flows from/(used in) operating activities		4,893	(5,714)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Interest received	**7,981**	3,512
Purchase of items of property and equipment	**(73,286)**	(107,770)
Purchase of other intangible assets	**(2,282)**	(543)
Investment in segregated portfolio	**(50,581)**	—
Proceeds from disposal of property and equipment	**355**	986
Acquisition of subsidiaries	**—**	(60,486)
Consideration paid for prior year acquisition of subsidiaries	**(18,071)**	—
Net cash flows used in investing activities	**(135,884)**	(164,301)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	**25,000**	69,000
Proceeds from issue of shares	**188,521**	—
Repayment of bank loans	**(59,200)**	(30,002)
Interest paid	**(39,893)**	(2,532)
Lease payments	**(41,100)**	(28,895)
Payment of listing expenses	**(588)**	(3,134)
Contribution from non-controlling shareholders	**2,900**	10,405
Advance payment received for subscription of share options	**15,697**	25,383
Net cash flows from financing activities	**91,337**	40,225
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(39,654)**	(129,790)
Cash and cash equivalents at beginning of period	**1,680,625**	1,109,211
Effect of foreign exchange rate	**3,291**	(9,048)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**1,644,262**	970,373

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. CORPORATE INFORMATION

ADICON Holdings Limited ("the Company") is a limited liability company incorporated in the Cayman Islands on 20 March 2008 and its shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 30 June 2023. Its registered office is located at Third Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands.

The Company is an investment holding company. During the reporting periods, the Company's subsidiaries were principally engaged in providing medical testing services and trade of medical testing equipment in People's Republic of China (the "PRC").

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2023 has been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2022.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of the following new and revised International Financial Reporting Standards ("IFRSs") for the first time for the current period's financial information.

IFRS 17	*Insurance Contracts*
Amendments to IFRS 17	*Insurance Contracts*
Amendments to IFRS 17	*Initial Application of IFRS 17 and IFRS 9 – Comparative Information*
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to IAS 8	*Definition of Accounting Estimates*
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to IAS 12	*International Tax Reform – Pillar Two Model Rules*

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

The nature and impact of the new and revised IFRSs that are applicable to the Group are described below:

(a) Amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group's interim condensed consolidated financial information but are expected to affect the accounting policy disclosures in the Group's annual consolidated financial statements.

(b) Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The Group has applied the amendments on temporary differences related to leases as at 1 January 2022, with any cumulative effect recognised as an adjustment to the balance of retained profits or other component of equity as appropriate at that date. In addition, the Group has applied the amendments prospectively to transactions other than leases that occurred on or after 1 January 2022, if any.

    The adoption of amendments to IAS 12 did not have any impact on the basic and diluted earnings per share attributable to ordinary equity holders of the parent, other comprehensive income and the interim condensed consolidated statements of cash flows for the six months ended 30 June 2023 and 2022.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(d) Amendments to IAS 12 International Tax Reform – Pillar Two Model Rules introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

The adoption of the new and revised standards had no significant financial effect on the Group's interim condensed consolidated financial information.

3. OPERATING SEGMENT INFORMATION

Information about geographical areas

For management purposes, the Group is organised into a whole business unit based on their products and services. Management monitors the results of the Group's operating as a whole for the purpose of making decisions about resource allocation and performance assessment.

Since nearly all of the Group's non-current assets were located in Mainland China, no geographical segment information is presented in accordance with IFRS 8 *Operating Segments*.

Information about major customers

No revenue from the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the periods.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

4. REVENUE

An analysis of revenue is as follows:

(i) Disaggregated revenue information

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Revenue from contracts with customers		
Medical diagnostic services	**1,644,113**	2,445,614
Timing of revenue recognition		
Goods transferred at a point in time	**1,635,428**	2,427,969
Services transferred over time	**8,685**	17,645
Total Revenue from contracts with customers	**1,644,113**	2,445,614

The following table shows the amounts of revenue recognized during the periods that were included in the contract liabilities at the beginning of each of the periods and recognized from performance obligations satisfied in previous periods:

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Revenue recognized that was included in the contract liabilities balance at the beginning of period:	**21,060**	20,683

(ii) Performance obligations

Testing services for R&D projects and others

Under testing services for R&D projects and others, revenue is recognized at the amount to which the Group has the right to invoice for services performed. Therefore, under practical expedient allowed by IFRS 15, the Group does not disclose the value of unsatisfied performance obligation.

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of services provided	**811,593**	1,319,617
Cost of inventories sold	**115,512**	136,927
Depreciation of property and equipment	**45,374**	72,702
Depreciation of right-of-use assets	**30,141**	27,792
Amortisation of other intangible assets*	**3,119**	2,344
Fair value gains on convertible redeemable preferred shares	**(11,475)**	(85,297)
Fair value gains on derivative financial instruments	**(29)**	—
Fair value gains on put option over non-controlling interests	**(15,305)**	—
Research and development costs	**69,051**	79,985
Auditors' remuneration	**3,719**	3,675
Listing expenses	**58,965**	11,683
Employee benefit expense:	**505,920**	575,823
Share awards	**15,776**	10,026
Salaries and other benefits	**386,372**	469,234
Pension scheme contributions, social welfare and other welfare	**103,772**	96,563
Lease payments not included in the measurement of lease liabilities	**8,485**	6,249
Bank interest income	**(7,981)**	(3,512)
Finance cost	**45,853**	9,504
Foreign exchange losses, net	**993**	2,697
Losses on disposal of items of property and equipment and other intangible assets	**2,408**	315
Gain on disposal of items of right-of-use asset, net	**—**	(2)
Impairment losses, net of reversal:	**60,456**	109,919
Financial assets under expected credit losses ("ECL") model	**47,068**	109,919
Inventories	**13,388**	—

* The amortisation of other intangible assets for the period is included in "Cost of sales", "Selling and marketing expenses", "Administrative expenses" and "Research and development costs" in the consolidated statement of profit or loss and other comprehensive income.

6. INCOME TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Cayman Islands

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gains.

Hong Kong

The subsidiary which operates in Hong Kong is subject to profits tax at a rate of 8.25% applies to the first HKD2,000,000 of assessable profits, the remaining assessable profits is subject to profits tax at a rate of 16.5%.

Pursuant to the PRC Enterprise Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

6. INCOME TAX (Continued)

Mainland China

Pursuant to the Enterprise Income Tax Law of the PRC and the respective regulations (the "EIT Law"), the subsidiaries which operate in Mainland China are subject to EIT at a rate of 25% on the taxable income unless those subject to tax concession set out below:

Entity	Notes	Six months ended 30 June 2023 and 2022
杭州艾迪康醫學檢驗中心有限公司 Adicon (Hangzhou) Clinical Laboratories Co., Ltd. ("Hangzhou Adicon")	1	15%
合肥艾迪康醫學檢驗實驗室有限公司 Adicon (Hefei) Clinical Laboratories Co., Ltd. ("Hefei Adicon")	2	15%
南昌艾迪康醫學檢驗實驗室有限公司 Adicon (Nanchang) Clinical Laboratories Co., Ltd. ("Nanchang Adicon")	2	15%
上海錦測醫學檢驗所有限公司 Shanghai Jince Clinical Laboratories Co., Ltd. ("Shanghai Adicon")	3	15%
武漢艾迪康醫學檢驗所有限公司 Adicon (Wuhan) Clinical Laboratories Co., Ltd. ("Wuhan Adicon")	3	15%
濟南艾迪康醫學檢驗中心有限公司 Adicon (Jinan) Clinical Laboratories Co., Ltd. ("Jinan Adicon")	4	15%
北京艾迪康醫學檢驗實驗室有限公司 Adicon (Beijing) Clinical Laboratories Co., Ltd. ("Beijing Adicon")	4	15%
福州艾迪康醫學檢驗所有限公司 Adicon (Fuzhou) Clinical Laboratories Co., Ltd. ("Fuzhou Adicon")	4	15%
南京艾迪康醫學檢驗所有限公司 Adicon (Nanjing) Clinical Laboratories Co., Ltd. ("Nanjing Adicon")	4	15%
成都艾迪康醫學檢測實驗室有限公司 Adicon (Chengdu) Clinical Laboratories Co., Ltd. ("Chengdu Adicon")	5	15%
西安艾迪康醫學檢驗實驗室有限公司 Adicon (Xi'an) Clinical Laboratories Co., Ltd. ("Xi'an Adicon")	5	15%
重慶艾迪康醫學檢驗實驗室有限公司 Adicon (Chongqing) Clinical Laboratories Co., Ltd. ("Chongqing Adicon")	5	15%
雲南艾迪康醫學檢驗所有限公司 Adicon (Yunnan) Clinical Laboratories Co., Ltd. ("Yunnan Adicon")	5	15%
貴州艾迪康醫學檢驗中心有限公司 Guizhou Adicon Clinical Laboratories Center Co., Ltd. ("Guizhou Adicon")	5	15%
南寧艾迪康醫學檢驗實驗室有限公司 Adicon (Nanning) Clinical Laboratories Co., Ltd. ("Nanning Adicon")	6	20%
衢州艾迪康醫學檢驗實驗室有限公司 Quzhou Adicon Clinical Laboratories Co., Ltd. ("Quzhou Adicon")	6	20%

6. INCOME TAX (Continued)

Mainland China (Continued)

Notes:

(1) In 2021, Hangzhou Adicon was accredited as a "High and New Technology Enterprise" ("HNTE") and was entitled to a preferential income tax rate of 15% for a period of three years from 2021 to 2024.

(2) In 2022, Hefei Adicon and Nanchang Adicon were accredited as HNTEs and were entitled to a preferential income tax rate of 15% for a period of three years from 2022 to 2025.

(3) In 2021, Shanghai Adicon and Wuhan Adicon were accredited as HNTEs and were entitled to a preferential income tax rate of 15% for a period of three years from 2021 to 2024.

(4) In 2020, Beijing Adicon, Jinan Adicon, Fuzhou Adicon and Nanjing Adicon were accredited as HNTEs and were entitled to a preferential income tax rate of 15% for a period of three years from 2020 to 2023.

(5) Under the policies for the Grand Western Development Program, the Group's subsidiaries incorporated in Western China (Chengdu Adicon, Xi'an Adicon, Chongqing Adicon, Yunnan Adicon and Guizhou Adicon) were subject to corporate tax at 15%. The rate applied to companies located in Western China which engaged in the encouraged industries listed in the Grand Western Development Program. The policies were available during 2018 to 2030.

(6) Nanning Adicon and Quzhou Adicon are qualified as small-scaled minimal profit enterprises during 2022 and 2023. Pursuant to Caishui [2019] circular No.13, the first RMB1,000,000 of assessable profits of these subsidiaries may be calculated as 25% and be taxed at the preferential EIT rate of 20%. The assessable profits between RMB1,000,000 and RMB3,000,000 may be calculated as 50% and be taxed at the preferential EIT rate of 20%.

The income tax expense of the Group for the periods is analysed as follows:

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Current income tax	**61,508**	89,043
Deferred income tax	**(30,035)**	(28,051)
Total tax charge for the period	**31,473**	60,992

7. DIVIDENDS

No dividend has been paid or declared by the Company during the six months ended 30 June 2023.

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 653,787,020 (2022: 653,402,129) in issue during the period, as adjusted to reflect the rights issue during the period.

The calculation of the diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible redeemable preferred shares for the six months ended 30 June 2022. As the convertible redeemable preferred shares have automatically converted into ordinary shares upon the Global Offering, it has no impact on the diluted earnings per share for the six months ended 30 June 2023. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period ended 30 June 2023, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares during the periods.

The calculation of basic earnings per share is based on:

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:(RMB'000)	**111,807**	380,450
Less: Fair value gains on financial liabilities at FVTPL	**11,475**	85,297
	100,332	295,153
Ordinary shares ('000)		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**653,787**	653,402
Earnings per share (RMB per share)	**0.17101**	0.58226
Effect of dilution – weighted average number of ordinary shares:		
Convertible redeemable preferred shares	**52,472**	52,762
Weighted average number of ordinary shares in issue during the period used in the dilutive earnings per share calculation	**706,259**	706,164
Diluted earnings per share (RMB per share)	**0.14206**	0.41797

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2023, the Group acquired assets at a cost of RMB80,713,000 (30 June 2022: RMB115,279,000).

Assets with a net book value of RMB2,763,000 were disposed of by the Group during the six months ended 30 June 2023 (30 June 2022: RMB1,301,000), resulting in a net loss on disposal of RMB2,408,000 (30 June 2022: RMB315,000).

10. TRADE AND BILLS RECEIVABLES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Trade receivables	**2,013,131**	2,043,901
Bills receivable	**8,550**	3,253
	2,021,681	2,047,154
Allowance for expected credit losses	**(236,422)**	(190,307)
	1,785,259	1,856,847

Note:

Bills receivable is subject to impairment under the general approach and it is considered to be minimal.

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally from 90 to 120 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

10. TRADE AND BILLS RECEIVABLES (Continued)

An ageing analysis of the trade and bills receivables as at the end of each of the reporting period, based on the billing date, and net of allowance for expected credit losses, is as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
1 month to 6 months	1,156,400	1,147,332
6 months to 1 year	439,745	580,841
1 year to 2 years	177,584	119,950
2 years to 3 years	11,115	8,543
3 years to 4 years	415	181
	1,785,259	1,856,847

The movements in the allowance for expected credit losses of trade receivables are as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
At beginning of period/year	190,307	75,075
Acquisition of a subsidiary	—	4,640
Impairment losses, net	47,275	111,510
Write-off	(1,160)	(918)
At end of period/year	236,422	190,307

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

10. TRADE AND BILLS RECEIVABLES (Continued)

For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items by using a provision matrix, estimated based on the financial quality of debtors and historical credit loss experience based on the ageing of the trade receivables, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. The following table details the risk profile of trade receivables:

	As at 30 June 2023		
	Amount RMB'000	Expected loss rate %	Impairment RMB'000 (Unaudited)
1 month to 6 months	1,183,426		35,576
6 months to 1 year	488,423		48,678
Subtotal-within 1 year	1,671,849	5.04	84,254
1 year to 2 years	270,680	34.39	93,096
2 years to 3 years	57,399	80.64	46,284
3 years to 4 years	9,872	95.80	9,457
4 years to 5 years	2,345	100.00	2,345
Over 5 years	986	100.00	986
	2,013,131		236,422

	As at 31 December 2022		
	Amount RMB'000	Expected loss rate %	Impairment RMB'000 (Audited)
1 month to 6 months	1,423,358		59,076
6 months to 1 year	376,255		15,603
Subtotal-within 1 year	1,799,613	4.15	74,679
1 year to 2 years	196,608	38.99	76,658
2 years to 3 years	38,161	77.61	29,618
3 years to 4 years	7,090	97.64	6,923
4 years to 5 years	1,846	100.00	1,846
Over 5 years	583	100.00	583
	2,043,901		190,307

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Deposits		25,809	20,920
– current		7,596	7,515
– non-current	(a)	18,213	13,405
Advanced payment for investment	(c)	18,200	18,200
Advance lease payments for short-term leases		11,682	10,610
Prepayments	(b)	53,139	54,613
Value-added tax recoverable		18,404	14,300
Deferred listing expenses		—	12,682
Others		10,504	9,940
Provision of impairment		(359)	(566)
		137,379	140,699

Notes:

(a) The amount represents deposits for lease of properties with over one-year lease terms and deposits with suppliers.

(b) The amount represents prepayments for equipment, reagents and consumables.

(c) On 23 June 2021, Hangzhou Adicon entered into a letter of intent (the "Letter") for the proposed acquisition of three ICLs in Henan (the "Henan Target Companies") from parties which are independent of the Company and its connected persons. In June 2021, Hangzhou Adicon made an advance payment amounted to RMB30,000,000 to the Seller, of which, RMB11,800,000 is for the acquisition of Henan Meikang Shengde Medical Laboratory Co., Ltd., RMB18,200,000 is for the acquisition of Yongcheng Meikang Shengde Medical Laboratory Co., Ltd. and Minquan County Meikang Shengde Medical Laboratory Co., Ltd.. The advance payment was refundable if certain conditions set out in the Letter were not satisfied within twelve months. In May 2022, the acquisition of Henan Meikang Shengde Medical Laboratory Co., Ltd. was completed. Hangzhou Adicon further paid RMB48,686 consideration for the acquisition of Henan Meikang Shengde to the seller in addition to the advance payment of RMB11,800,000. After the acquisition, Henan Meikang Shengde Medical Laboratory Co., Ltd. changed its name to Henan Adicon Clinical Laboratories Co., Ltd. ("Henan Adicon").

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

Analysed into:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Current portion	119,525	127,860
Non-current portion	17,854	12,839
	137,379	140,699

Other receivables had no recent history of default and past due amounts. The financial assets included in the above balances related to receivables were categorised in stage 1 at the end of each of the periods. In calculating the expected credit loss rate, the Group considers the historical loss rate and adjusts for forward-looking macroeconomic data. During the periods, the Group estimated that the expected credit loss rate for deposits and other receivables is minimal.

The Group seeks to maintain strict control over its outstanding receivables to minimize credit risk. Long aging balances are reviewed regularly by senior management. In view of the fact that the Group's deposits and other receivables related to a large number of diversified counterparties, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its deposits and other receivables balances.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Non-current			
Derivatives - interest rate cap contracts	(a)	8,438	8,104
Current			
Investment in segregated portfolio	(b)	50,581	—

Notes:

(a) In October 2022, the Group entered into interest rate cap contracts with certain financial institutions in order to manage interest risk on the five-year loan facility amounted to USD150,000,000 with variable interest rate. These interest rate cap contracts are assessed as derivative financial instruments and therefore are initially recognised as financial assets at FVTPL. The Group recorded RMB29,000 (unaudited) fair value gain during the six months ended 30 June 2023.

(b) In June 2023, the Group entered into an investment in a segregated portfolio account. It was measured at fair value through profit or loss. The fair value of the investment amounted to RMB50,581,000 (unaudited) as at 30 June 2023.

13. TRADE AND BILLS PAYABLES

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Trade and bills payables	**882,374**	1,062,452

An ageing analysis of the trade and bill payables as at the end of each of the reporting periods, based on the invoice date, is as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Within 1 year	**790,831**	1,010,329
1 year to 2 years	**82,677**	50,484
2 years to 3 years	**7,568**	379
Over 3 years	**1,298**	1,260
	882,374	1,062,452

The trade payables are non-interest-bearing and are normally settled on 60 to 120 day terms.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

14. OTHER PAYABLES AND ACCRUALS

	Notes	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Payroll payables		357,902	438,351
Accruals		128,098	172,162
Accrued listing expenses		34,924	11,011
Other payables		94,157	83,978
Advance payments received for subscription of share options	(a)	113,982	97,036
Payables arising from acquisitions	(b)	99,306	132,682
Amount due to non-controlling shareholders	(c)	57,327	49,884
		885,696	985,104

Notes:

(a) The Group received RMB22,351,000 in 2022 and RMB15,697,000 (unaudited) during the six months ended 30 June 2023 from certain domestic senior management and mid-level management of the Group for subscribing vested shares under the share option scheme. As at 30 June 2023, these vested share options are yet to be legally registered and the subscription received from these individuals are recorded as advance payments.

(b) In connection with the acquisition of Shangrao Adicon Clinical Laboratory Co., Ltd. ("Shangrao Adicon") and Jiangxi Jince BioTech Co., Ltd ("Jiangxi Jince"), the Group acquired 61% equity interests in Shangrao Adicon and Jiangxi Jince during 2021 at a total consideration of RMB45,726,000 in cash, which has been fully paid by 30 June 2023. The Group was also obligated to purchase the remaining non-controlling interests in Shangrao Adicon and Jiangxi Jince from minority shareholders upon satisfaction of certain condition precedents in the relevant share purchase agreements. The Group estimated that the present value of the put option's strike price over the non-controlling interests in Shangrao Adicon and Jiangxi Jince amounted to RMB42,160,000 (unaudited) as at 30 June 2023, with the debit entry on recognizing the put option as a debit to equity and the subsequent changes recognized in profit or loss.

In connection with the acquisition of Henan Adicon, the Group acquired 51% equity interests in Henan Adicon during 2022 at a total consideration of RMB88,916,000 in cash, of which RMB62,241,000 had been paid and RMB26,675,000 recognized as contingent consideration. The fair value of the contingent consideration is RMB13,337,000 (unaudited) as of 30 June 2023 and the subsequent fair value changes was recognized in profit or loss. The Group is also obligated to purchase 19% equity interests in Henan Adicon from minority shareholders upon satisfaction of certain condition precedents in the relevant share purchase agreements. The Group estimated that the present value of the put option's strike price over the non-controlling interests in Henan Adicon amounted to RMB43,809,000 (unaudited) as at 30 June 2023, with the debit entry on recognizing the put option as a debit to equity and the subsequent changes recognized in profit or loss.

(c) Pursuant to the share purchase agreement entered between the Group and the then shareholders of Henan Adicon, the collection of revenue from COVID-19 testing services earned by Henan Adicon during 2021 shall be repaid to the then shareholders. The balance amounted to RMB57,327,000 (unaudited) represents the revenue collected by the Group on behalf of the then shareholders as at 30 June 2023.

15. CONVERTIBLE REDEEMABLE PREFERRED SHARES

Pursuant to the preference share purchase agreement dated 17 December 2020, the Company agreed to issue and allot 8,154,073,619 (40,770,368 as adjusted after share consolidation on 3 June 2021 consolidating the share capital of the Company from USD50,000 divided into 500,000,000,000 shares of USD0.0000001 each to USD50,000 divided into 2,500,000,000 shares of USD0.00002 each ("Share Consolidation")) convertible redeemable preferred shares ("Preferred Shares") in aggregate to investors for a total consideration of USD68,000,000 (equivalent to RMB443,931,000).

Pursuant to the Preference Share Purchase Agreement dated 22 January 2021 and 25 January 2021, the Company further allotted and issued 2,398,256,946 (11,991,285 as adjusted after Share Consolidation) Preferred Shares in aggregate to investors for a total consideration of USD20,000,000 (equivalent to RMB129,156,000).

The key terms of the preferred Shares are summarized as follows:

(a) Conversion features

Each Preferred Share shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share and after such share has been fully paid, into such number of fully paid ordinary shares as determined by dividing the corresponding issue price by the corresponding Conversion Price (as defined below), determined as hereinafter provided, in effect at the time of the conversion. The price at which the ordinary shares shall be issuable upon conversion of each Preferred Share (the "Conversion Price") shall initially be the original issuance price per Preferred Share ("Preferred Share Original Issue Price"). Such initial Conversion Price shall be subject to adjustment (including but not limited to ordinary shares issued or issuable in connection with any share split, subdivisions, dividends, combinations or consolidations, combination, recapitalization, a merger, joint venture, exchange of shares or other sale of the shares of the Company, capital reorganization or reclassification, and adjustment upon issuance of new securities for consideration per share less than the Conversion Price).

All Preferred Shares shall automatically be converted into ordinary shares at the then respective effective Conversion Price upon (i) the consummation of a Qualified Public Offering, or (ii) the closing of a Trade Sale (as defined below) provided that in the case of a Trade Sale that is a sale of equity securities of the Company, and the Preferred Shares that are being Transferred as part of such Trade Sale, or (iii) the receipt by the Company of the written consent of the holders of fifty percent (50%) or more of the Preferred Shares. "Qualified Public Offering" means an public offering on the Main Board of The Stock Exchange of Hong Kong Limited, the Shanghai Stock Exchange, New York Stock Exchange or the Nasdaq National Market, or another internationally recognized stock exchange agreed by the board of directors of the Company. Trade Sale means any transaction or series of transactions (including, for the avoidance of doubt, any merger, consolidation, amalgamation, scheme of arrangement or merger) which would, if consummated, result in, any investor or group of investors in the aggregate acquiring no less than 50% of the voting power and/or equity securities of the Company or the surviving entity or a right to elect directors or managers with a majority of the voting power of the Company's or the surviving entity's board of directors or managers, or otherwise result in a change of control of the Company.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

15. CONVERTIBLE REDEEMABLE PREFERRED SHARES (Continued)

(b) Redemption features

In the event that the Company fails to consummate a Qualified Public Offering on or prior to the last day of the three-year period following 17 December 2020 (the "Closing Date") (period following the Closing Date, the "Redemption Start Date"), then within the six months following the Redemption Start Date, each of the Preferred Shareholders shall have the right, but not the obligation, by sending a written notice (the "Redemption Notice") to the Company, to request the Company to redeem all or a portion of the then outstanding Preferred Shares held by such Preferred Shareholder (the "Redemption Share") (each such requesting Preferred Shareholder, a "Requesting Holder"). Upon receipt of any Redemption Notice, the Company shall promptly give a written notice of the redemption request to each Preferred Shareholder that has not requested redemption stating the existence of such request and the Company shall proposed date of redemption (the "Redemption Date") shall be no later than 45 days following the date of the Redemption Notice and the mechanics of redemption. Each Requesting Holder is entitled to receive, with respect to each of its respective Redemption Shares, an amount (the "Preferred Shareholder Preference Amount") equal to the sum of (a) the Preferred Share Original Issue Price (less the amount of any distributed proceeds that have been received by such Requesting Holder on such Preferred Share from the applicable Closing Date until the payment of the Redemption Price (as defined below)), plus (b) (i) an interest accrued at a compound interest rate of 8% per annum (compounding every 12 months) on the Preferred Share Original Issue Price for the period starting from (and including) the applicable Closing Date until (and including) the Redemption Date and (ii) if such Preferred Share is redeemed after the Redemption Date, a compound interest rate of 10% per annum (compounding every 12 months) for the period starting from (and excluding) the Redemption Date until (and including) the date of payment of the Redemption Price, provided that if at any time any distributed proceeds have been received by such Requesting Holder on such Preferred Share, the foregoing interest shall cease to accrue with respect to such portion of the Preferred Share Original Issue Price that is equal to the amount of such distributed proceeds upon and after such time, plus (c) all dividends declared and unpaid with respect to such Redemption Share, if any, at the time of delivery of the Redemption Notice (as adjusted for any share splits, share dividends, combinations, recapitalizations or similar transactions) (the "Redemption Price").

(c) Presentation and Classification

The Group and the Company have designated the Preferred Shares as whole as financial liabilities carried at FVTPL. The change in fair value of the Preferred Shares is charged to profit or loss except for the portion attributable to credit risk change that shall be charged to other comprehensive income. The management considered that the fair value change in the Preferred Shares attributable to changes of own credit risk is not significant.

Pursuant to the memorandum and articles of association dated 17 December 2020, the holders of Preferred Shares were entitled to an option to require the Company to early redeem the whole preferred shares by sending the Redemption Notice to the Company when the Company fails to consummate a Qualified Public Offering at any time on or prior to the last day of the three-year period following the Closing Date and the Redemption date shall be no later than 45 days following the date of the Redemption Notice, the management of the Company evaluates that the Company will have no obligation to pay the Redemption Price by 31 December 2023. As such, the Preferred Shares were classified as non-current liability as at 31 December 2022.

On June 30, 2023, the Company was successfully listed on the Main Board of the Stock Exchange. All Preferred Shares have been converted into 52,761,653 ordinary shares upon completion of the IPO on June 30, 2023. The fair value of each Preferred Share on the conversion date is the offer price in the global offering.

15. CONVERTIBLE REDEEMABLE PREFERRED SHARES (Continued)

(c) Presentation and Classification (Continued)

The completion of the successful IPO has triggered the automatic termination of all the special rights granted to the Preferred Shares.

Key valuation assumptions used to determine the fair value of Preferred Shares as at the end of 31 December 2022 are as follows:

	At 31 December 2022
Risk-free interest rate	4.73%
Discount for lack of marketability ("DLOM")	5.0%
Volatility	31.79%

The Group estimated the risk-free interest rate based on the yield of the US Treasury Strips denominated in USD with a maturity life equal to the expected terms for public offering event as of the valuation date. The DLOM was estimated based on the option-pricing method. Under the option-pricing method, the cost of a put option, which can hedge the price change before the privately held shares can be sold, was considered as a basis to determine the lack of marketability discount. Volatility was estimated based on daily stock prices of the comparable company for a period with length commensurate to the expected terms of liquidity event.

16. SHARE CAPITAL

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Issued and fully paid:		
723,452,282 (2022: 653,402,129) ordinary shares	**96**	86

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	**Share capital**
At 31 December 2021 and 1 January 2022	653,402,129	86
At 31 December 2022 and 1 January 2023	653,402,129	86
Shares issued upon the Global Offering (Note)	17,288,500	2
Automatic conversion of convertible preferred shares upon the Global Offering (Note 15)	52,761,653	8
At 30 June 2023	**723,452,282**	**96**

Note: On 30 June 2023, the Company issued a total of 17,288,500 ordinary shares of US$0.00002 each at the price of HK$12.32 per share by means of Global Offering.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

17. SHARE INCENTIVE PLAN

In July 2019, the board of directors of the Company passed a resolution to adopt share incentive plan for senior executive and senior management (the "Employee Incentive Plans") and subsequently amended and restated on 7 November 2020, 15 April 2021 and 1 October 2021 to promote the success of the Company and to incentivise directors and employees of the Group. Under the Employee Incentive Plans, the board of directors of the Company may at its discretion approve up to 10% of prevailing ordinary share capital of the Company on a fully diluted basis as at the date of such grant to any eligible senior executive and senior management of the Company.

During the year ended 31 December 2019 to the period ended 30 June 2023, the Company has granted share options and restricted share units ("RSUs") to eligible senior executive and senior management of the Group to subscribe up to 101,171,225 underlying shares of the Company. Set out below is details of specific grant of share-based awards as adjusted after Share Consolidation:

Grantee	Date of Grant	Type	Number of underlying shares granted '000	Exercise/ Subscription price USD per share	Vesting period
Employees	10 July 2019 ~ 15 March 2022	Share options	18,326	0.38 ~1.50	30 June 2020 ~ 31 March 2024
Executive directors and senior management	25 February 2020 ~ 1 April 2023	Share options	70,272	0.38 ~1.67	30 June 2020 ~ 31 March 2024
Executive directors and senior management	24 November 2021~ 9 February 2022	RSUs	12,573	1.50~ 1.66	15 December 2021 ~ 31 March 2026

The share options granted to employees shall vest and become 100% exercisable on the anniversary of the vesting commencement date. The share options and RSUs granted to executive directors and senior management shall vest and become exercisable as to 25% of the total number of option or RSUs granted on the first anniversary of the vesting commencement date, and the remaining 25%, 25% and 25% of the total number of options granted shall vest and become exercisable on the second, third and fourth anniversary of the vesting commencement date. The RSU recipients are obligated to pay the subscription price of the RSUs upon vesting.

In addition to employee time-based vesting condition, the number of share options/RSUs shall vest also depends on the financial performance targets including total sales, sales by specified categories and net profit target achieved by the Group during the vesting period. The vesting conditions for a senior management also include market capitalization targets upon completion of IPO and acquisition of business.

During the six months ended 30 June 2023, share award expenses of RMB15,776,000 (unaudited) (six months ended 30 June 2022: RMB10,026,000 (unaudited)) were charged to profit or loss.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

18. COMMITMENTS

The Group had the following capital commitments at 30 June 2023 and 31 December 2022:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Contracted, but not provided for acquisition of property and equipment	13,963	15,418

19. RELATED PARTY TRANSACTIONS

(a) Name and relationship

Name		Relationship
艾康生物技術 (杭州) 有限公司 ACON Bio-Technology Hanzhou Co., Ltd. ("ACON")	Note	Controlled by shareholder
艾健醫療器械 (杭州) 有限公司 AJON Medical Device (Hangzhou) Co., Ltd ("AJON")	Note	Controlled by shareholder

Note:

An entity controlled by Mr. LIN Jixun, one of the founders and a non-executive Director of the Company.

(b) Transactions with related parties

The following transactions were carried out with related parties:

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Sales to		
ACON	50	53
Purchase from		
ACON	24,307	32,342
Rent from		
AJON	3,692	4,036

The directors of the Company are of the opinion that the above sales to related parties and purchase from related parties were conducted in the ordinary course of business and on arms-length commercial terms.

19. RELATED PARTY TRANSACTIONS (Continued)

(c) Outstanding balances with related parties

As disclosed in the statements of financial position, the Group had outstanding balances with related parties at 30 June 2023 and 31 December 2022.

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Due from related parties		
Trade receivables (trade in nature)		
ACON	24	12
Other receivables and prepayments (trade in nature)		
ACON	49	191
AJON	2,345	2,147
	2,394	2,338
Total amounts due from related parties	2,418	2,350
Analysed as:		
Current	319	227
Non-Current	2,099	2,123
	2,418	2,350
Due to related parties		
Trade payables (trade in nature)		
ACON	22,882	59,836
Other payables (trade in nature)		
AJON	1,141	1,163
ACON	64	72
	1,205	1,235
Total amounts due to related parties	24,087	61,071

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

19. RELATED PARTY TRANSACTIONS (Continued)

(d) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Salaries and bonuses	**2,740**	2,486
Social welfare and other benefits	**263**	324
Share-based compensation expenses	**12,513**	5,398
	15,516	8,208

20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	As at 30 June 2023		As at 31 December 2022	
	Carrying amount RMB'000 (Unaudited)	**Fair value RMB'000 (Unaudited)**	Carrying amount RMB'000 (Audited)	Fair value RMB'000 (Audited)
Financial Assets				
Derivatives - interest rate cap contracts	**8,438**	**8,438**	8,104	8,104
Investment in segregated portfolio	**50,581**	**50,581**	—	—
	59,019	**59,019**	8,104	8,104
Financial liabilities				
Contingent consideration	**13,337**	**13,337**	27,055	27,055
Convertible redeemable preferred shares	**—**	**—**	589,179	589,179
	13,337	**13,337**	616,234	616,234

Management has assessed that the fair values of cash and bank balances, trade and bills receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to related parties, and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short-term maturities of these instruments.

20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

The Group's finance department headed by the financial controller is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At the end of each of the periods, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The directors review the results of the fair value measurement of financial instruments periodically for financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2022 and 30 June 2023 were assessed to be insignificant.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

As at 30 June 2023 (Unaudited)

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial Assets				
Derivatives – interest rate cap contracts	—	8,438	—	8,438
Investment in segregated portfolio	—	50,581	—	50,581
	—	59,019	—	59,019
Financial liabilities				
Contingent consideration	—	—	13,337	13,337

20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

As at 31 December 2022 (Audited)

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial Assets				
Derivatives - interest rate cap contracts	—	8,104	—	8,104
Financial liabilities				
Contingent consideration	—	—	27,055	27,055
Convertible redeemable preferred shares	—	—	589,179	589,179
	—	—	616,234	616,234

During the periods, there was no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

20. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2022 and 30 June 2023:

	Valuation technique	Significant unobservable inputs	Sensitivity of fair value to the input
Convertible redeemable preferred shares	Black-Scholes option pricing model	Risk-free interest rate	1% increase/decrease in risk-free interest rate while with all other variables constant would decrease/increase the fair value of convertible redeemable preferred shares by RMB418,300/RMB429,000 as at 31 December 2022.
		DLOM	1% increase/decrease in DLOM while holding all other variables constant would decrease/increase the fair value of convertible redeemable preferred shares by RMB4,446,300/RMB4,451,200 as at 31 December 2022.
		Volatility	1% increase/decrease in Volatility while holding all other variables constant would increase/decrease the fair value of convertible redeemable preferred shares by RMB217,700/RMB217,200 as at 31 December 2022.
Derivatives - interest rate cap contracts	DCF model and Black-Scholes option pricing model	Risk-free interest rate	1% increase/decrease in risk-free interest rate while holding all other variables constant would increase/decrease the fair value of interest rate cap contracts by RMB230,000/RMB228,000 and RMB275,000/RMB263,000 as at 30 June 2023 and 31 December 2022, respectively.
		Volatility	1% increase/decrease in Volatility while holding all other variables constant would increase/decrease the fair value of interest rate cap contracts by RMB128,000/RMB124,000 and RMB146,000/RMB141,000 as at 30 June 2023 and 31 December 2022, respectively.
Contingent consideration	DCF model	Discount rate	1% increase/decrease in discount rate while holding all other variables constant would decrease/increase the fair value of contingent consideration by RMB184,000/RMB180,000 as at 30 June 2023 and 31 December 2022.

21. EVENTS AFTER THE REPORTING PERIOD

On 23 July 2023, the Company issued a total of 3,902,500 ordinary shares with a nominal value of US$0.00002 each at the price of HK$12.32 per share by means of over-allotment option.