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ADICON
ADICON Holdings Limited
艾迪康控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 9860)

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

The Board is pleased to announce the unaudited consolidated interim results of the Group for the six months ended June 30, 2024, together with the comparative figures for the corresponding period in 2023.

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

KEY FINANCIAL HIGHLIGHTS

	Unaudited	
	For the six months ended June 30,	
	2024	2023
	(RMB'000)	(RMB'000)
Revenue	1,465,701	1,644,113
Gross Profit	559,733	717,008
Profit for the period	103,478	120,258
Attributable to:		
Owners of the parent	101,582	111,807
Non-controlling interests	1,896	8,451
Earnings per Share (Expressed in RMB per Share)		
Basic	0.14	0.17
Diluted	0.14	0.14

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

We are one of the leading ICL service providers in China. We offer comprehensive and best-in-class testing services primarily to hospitals and health check centers through an integrated network of 35 self-operated laboratories across China. The high quality of our services is backed by our strong performance in terms of international accreditation and comprehensive testing menu. Currently, 20 of our laboratories have been accredited by ISO15189, which enables us to provide customers with the quality assurance that comes with this rigorous international standard. Our testing portfolio consists of over 4,000 medical diagnostic tests, including over 1,700 routine tests and over 2,300 esoteric tests. We are committed to continuously serving our patients and the general public with our 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.

2024 has been an adjustment year and transition year for the ICL industry away from COVID impacts in 2023 and years prior. COVID testing had a number of overhangs on the industry including adding to budgetary pressures of our local city governments and health bureaus as well as our overall hospital customer base. Despite the economic headwinds and some of the new Volume-Based Procurement (VBP) tenders and Diagnosis-Related Group (DRG) / Diagnosis-Intervention Packet (DIP) 2.0 reimbursement in 2024, we grew our base revenues by over 10% year over year for the six months ended June 30, 2024 over the six months ended June 30, 2023. We feel positive about the new initiatives announcement in support of innovation the healthcare sector including under the diagnostics and central laboratory/ contract research organization space. For the six months ended June 30, 2024, our Group recorded revenue of RMB1,465.7 million, representing a decrease of 10.9% as compared to the corresponding period of 2023. Our Group's gross profit decreased by 21.9% to RMB559.7 million for the six months ended June 30, 2024 from RMB717.0 million for the corresponding period of 2023.

In the first half of 2024, our Company has made several remarkable achievements. In particular, revenue generated from our base business (excluding COVID-19) increased by over 10%, driven by the exceptional performance of our esoteric services testing services, which saw growth exceeding 30% compared to the same period in 2023. This surge is a testament to the continued strength of our traditional service offerings, such as infection diseases and oncology tests, as well as the outstanding success of the central laboratory testing partnered with Guardant Health. This collaboration, fully operational at the beginning of 2024, has significantly contributed to our overall revenue growth. Furthermore, in response to national healthcare cost control measures, we have actively promoted strategies such as collaborative laboratory partnerships, centralized procurement, and single-device deployment, yielding significant results, with our revenue generated from collaboration laboratories increasing by over 70% in the first half of 2024 compared to the same period in 2023. This expansion has not only broadened our market reach but also optimized resource utilization, ultimately strengthening our market competitiveness and industry influence.

On the technological front, we successfully deployed a new generation Laboratory Information Management System (LIMS) system at our Hangzhou headquarters and comprehensively upgraded our centralized data architecture, Order Management System (OMS), reporting platform, Pathology Information Management System (PIMS), and logistics system. This commitment to a cutting-edge digital testing platform underscores our dedication to elevating operational efficiency and service quality. Simultaneously, we embraced the power of Artificial Intelligence (AI), achieving a milestone of over 5,000,000 AI-interpreted images. AI technology has significantly accelerated and enhanced the accuracy of our pathology reads while streamlining our overall workflow. We are actively expanding AI applications into cellular imaging and sequencing data, further optimizing operational efficiency and bolstering customer loyalty.

On the operation front, we maintained our industry-leading operational capabilities. Through rigorous cost control measures, we achieved further reductions in reagent procurement costs by 8% and reagent loss rate by 12% in the first half of 2024 compared to the same period in 2023, positively impacting key operational metrics. We also improved our laboratory personnel efficiency by over 10% in the first half of 2024 compared to the same period in 2023 through optimized resource allocation and staffing strategies. These initiatives ensure we maintain our competitive advantage while providing our clients with cost-effective and efficient laboratory solutions. Moving forward, we will continue to prioritize operational efficiency as a key driver of our Group's sustainable development.

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 2019, the National Health Commission and the National Development and Reform Commission jointly issued the Opinions on Promoting the Sustainable and Standardized Development of Medical Services in the Society (《關於促進社會辦醫持續健康規範發展的意見》), supporting tertiary public hospitals to share medical imaging, clinical testing, pathological diagnosis and other services with private medical institutions to form a cooperative medical management system, and standardizing and guiding social forces to set up chain and group-based ICLs. In 2021, the National Health Commission issued the Notice on Printing and Distributing the Guiding Principles for the Setup Plan of Medical Institutions (2021-2025) (《關於印發醫療機構設置規劃指導原則(2021-2025年)的通知》), further loosening planning restrictions on the total amount and space of social medical areas and encouraging medical institutions organized by social forces to take the lead in establishing or joining medical consortia. 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. This initiative reflects the Chinese government's commitment to improving healthcare accessibility and quality by encouraging private investment and innovation in the medical sector. By supporting non-public medical institutions, China aims to provide a more diverse and comprehensive range of healthcare services to its citizens.

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 emphasizing 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 boosting 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.

New technological developments in the biopharmaceutical sector, big data processing, and AI continue to bring benefits to the large leading diagnostic testing providers

Biopharmaceutical R&D is accelerating at a rapid pace with new targets, treatment modalities and disease models being discovered. This has also led to an accelerated development of the diagnostic technologies and tools to support both the R&D efforts, but also clinical

trial development, enrollment, and subsequent diagnosis, treatment monitoring and disease progression/recurrence monitoring. Diagnostics are playing an increasingly crucial role as testing technologies continue to evolve. Traditional technologies such as polymerase chain reaction (PCR) and next-generation sequencing (NGS) are undergoing constant upgrades, while the application of emerging technologies such as mass spectrometry, flow cytometry and multi-omics panels are leading the industry's development. As early adopters of new technologies, ICL companies can provide more competitive diagnostic products for research and clinical use, thereby supporting biopharma and healthcare services customers, and ultimately providing patients with more targeted and specific diagnosis and treatment options.

The convergence of big data and artificial intelligence is poised to revolutionize the clinical testing industry. Big data enables the aggregation and analysis of vast amounts of patient information, including genomic data, electronic health records, and other patient data, to help identify patterns, predict disease risk, and personalize treatment plans, enabling clinicians to make more informed decisions and leading to better patient outcomes. In the ICL space, this can improve the accuracy and reliability of diagnostic detection by enhancing quality control in laboratories, increasing the reliability and consistency of test results. Big data analytics can detect and track disease outbreaks, monitor population health and identify trends. We have made significant investments over the years to upgrade our laboratory information systems and data management capabilities, and we continue to leverage big data sets and AI tools to improve the accuracy and efficiency of our accessioning, reporting, and logistics operations. We believe that the ICL sector will be at the forefront of the digitization of healthcare and will be a key developer and beneficiary of the coming technological advances in healthcare services.

Multi-tiered Market Collaboration: Promoting Balanced Distribution of Medical Resources

In China, the distribution of medical resources remains significantly uneven, concentrated primarily in a few provinces and cities. This leads to overcrowding in Grade 3A hospitals (the highest level of hospitals in China) and their disproportionate share of medical services. ICLs, leveraging their strong capabilities in bidding and specialized testing, have established strategic partnerships with top-tier Grade 3A hospitals. Simultaneously, ICLs are capitalizing on their extensive and specialized testing menus and economies of scale to facilitate the expansion and accessibility of high-quality medical resources. They achieve this by providing comprehensive, high-quality medical testing services comparable to those of tertiary hospitals to county and township-level medical institutions. This collaborative development model not only significantly enhances the diagnosis, treatment, and service capabilities of primary healthcare facilities but also effectively promotes a more balanced distribution of medical resources. Ultimately, it addresses the issues of uneven and inefficient resource allocation.

Stricter regulatory policy promoting a regular and sustainable development of the third-party medical inspection industry

In May 2023, 14 departments, including the National Health Commission, issued the Key Points for Correcting Misconduct in Purchase and Sale of Medicine and Medical Services in 2023 (《2023年糾正醫藥購銷領域和醫療服務中不正之風工作要點》), pursuant to which a one-year national centralized rectification of medicine corruption was launched in August, in order to conduct in-depth systematic governance of the whole pharmaceutical industry and the entire chain with a full coverage. In addition, several regions such as Hunan Province, Shaanxi Province and Shanghai Municipality introduced special management measures for outsourcing inspection items. The implementation of such a series of regulatory policies will create a fair and transparent market environment for third-party medical inspection companies, especially industry-leading companies, and provide greater development opportunities. Driven by these policies, no unfair competition will exist in commercial activities, which will allow those legitimate industry-leading companies to leverage their advantages in resources, technology and brand, and obtain greater market share by virtue of their excellent service quality and innovation ability. Furthermore, the policy transparency enhances the credibility of the whole industry, which will make customers and investors give preference to third-party medical inspection companies, further promoting a sound and sustainable development of the industry.

DRG/DIP 2.0 issued further improving the efficiency of medical insurance settlement

In July 2024, the National Healthcare Security Administration issued the Notice on the Issuance of the Version 2.0 Grouping Scheme for Payment by DRG and DIP and Related Work Arrangements (《關於印發按病組和病種分值付費2.0版分組方案並深入推進相關工作的通知》) (the “**Notice**”), attached with the documents of the Version 2.0 Grouping Scheme for Payment by Diagnosis Related Groups (DRG) (《按病組 (DRG) 付費分組方案2.0版》) and the Version 2.0 Disease Database for Payment by Diagnosis-Intervention Packet (DIP) (《按病組分值 (DIP) 付費病種庫2.0版》). The Notice emphasizes that measures such as prepayment of medical insurance fund shall be encouraged to alleviate the financial pressure of medical institutions, and the backlog of outstanding payables by medical insurance fund shall be fully settled. The policy implementation aims to improve the efficiency of medical insurance settlement, assisting hospitals in timely refunding suppliers including ICL enterprises and further improving the cash flow and operational stability of ICL enterprises. Therefore, ICL enterprises could plan the use of funds more effectively, enhance operational efficiency and further improve market competitiveness.

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, 2024 amounted to RMB1,465.7 million, representing a decrease of approximately 10.9% as compared with RMB1,644.1 million for the six months ended June 30, 2023. This decrease was primarily due to the decrease in demand for our COVID-19-related services in the first half of 2024 as compared to the same period in 2023, and partially offset by the increase in demand for our esoteric testing services and the increase in our sales from collaboration laboratories.

Cost of Sales

Our cost of sales for the six months ended June 30, 2024 amounted to RMB906.0 million, representing a decrease of approximately 2.3% as compared with RMB927.1 million for the six months ended June 30, 2023, primarily due to the cost associated with administering COVID-19 tests decreased in parallel with COVID-19 testing volume.

Gross Profit and Gross Profit Margin

Based on the factors described above, the gross profit of our Group was RMB559.7 million for the six months ended June 30, 2024, as compared with RMB717.0 million for the six months ended June 30, 2023.

Gross profit margin is calculated as gross profit divided by revenue. The overall gross profit margin of our Group was approximately 38.2% for the six months ended June 30, 2024, compared with 43.6% for the six months ended June 30, 2023. The decrease in gross profit margin was primarily due to (i) the decrease in contribution from our COVID-19-related services in the first half of 2024; and (ii) the decrease in contribution from recently opened laboratories as these facilities were still in the ramp-up phase and not yet operating at full efficiency in the first half of 2024.

Selling and Marketing Expenses

Our selling and marketing expenses for the six months ended June 30, 2024 amounted to RMB202.0 million, representing a decrease of approximately 13.6% as compared with RMB233.7 million for the six months ended June 30, 2023. This decrease was primarily due to the decrease in staff costs and travel expenses as we implemented the enhanced cost control measures in the first half of 2024.

Administrative Expenses

Our administrative expenses for the six months ended June 30, 2024 amounted to RMB107.5 million, representing a decrease of approximately 21.3% as compared with RMB136.6 million for the six months ended June 30, 2023. This decrease was primarily due to the decrease in staff costs resulting from our organizational structure optimization in the first half of 2024 as well as the reduction in share-based payment expenses in first half of 2024 in comparison to the first half of 2023.

R&D Expenses

Our R&D expenses for the six months ended June 30, 2024 amounted to RMB58.7 million, representing a decrease of approximately 15.0% as compared with RMB69.1 million for the six months ended June 30, 2023. This decrease was primarily due to the reduced laboratory expenses and reagent consumables due to reduction in development projects in the first half of 2024.

Other Expenses

Our other expenses for the six months ended June 30, 2024 amounted to RMB50.0 million, representing a decrease of approximately 24.9% as compared with RMB66.6 million for the six months ended June 30, 2023. This decrease was primarily because of the reduction in the amount of allowance for expected credit losses associated with the receivables and lower inventory impairment losses, net of reversal.

Other Income and Gains

Our other income and gains for the six months ended June 30, 2024 amounted to RMB19.7 million, representing a decrease of approximately 42.2% as compared with RMB34.0 million for the six months ended June 30, 2023. This decrease was primarily due to the decrease of RMB15.3 million in non-cash fair value gain on put option over non-controlling interests under valuation adjustment mechanism relating to our acquisitions of Shangrao Adicon and Jiangxi Jince.

Finance Costs

Our finance costs for the six months ended June 30, 2024 amounted to RMB27.4 million, representing a decrease of approximately 40.2% as compared with RMB45.9 million for the six months ended June 30, 2023. This decrease was primarily due to the decrease in interest expenses on our bank borrowing following the refinancing of our USD-denominated offshore bank borrowings to lower interest rate RMB-denominated loans in the end of 2023 and beginning of 2024.

Income Tax Expenses

Our income tax expenses for the six months ended June 30, 2024 amounted to RMB30.3 million, representing a decrease of approximately 3.8% as compared with RMB31.5 million for the six months ended June 30, 2023. This decrease was generally in line with the decrease in our profit before tax, as adjusted by non-taxable fair value gains and losses and share-based payment expenses in the first half of 2024.

Profit for the Period

As a result of the foregoing, our profit for the period decreased by approximately 14.0% from RMB120.3 million for the six months ended June 30, 2023 to RMB103.5 million for the corresponding period in 2024.

Selected Items from the Unaudited Consolidated Statement of Financial Position

Current Assets/Liabilities

Our total current assets decreased to RMB3,146.5 million as of June 30, 2024 from RMB3,303.4 million as of December 31, 2023, and our total current liabilities decreased to RMB1,577.5 million as of June 30, 2024 from RMB1,757.0 million as of December 31, 2023.

Inventories

Our inventories as of June 30, 2024 amounted to RMB130.9 million, representing a decrease of approximately 25.9% as compared with RMB176.6 million as of December 31, 2023. This decrease was primarily due to the decrease in stock-up of reagents, equipment and instruments as a result of our increasing sales volume of clinical testing equipment and the enhanced inventory management measures we implemented in the first half of 2024.

Trade and Bills Receivables

Our trade and bill receivables as of June 30, 2024 amounted to RMB1,676.8 million, representing an increase of approximately 10.6% as compared with RMB1,515.4 million as of December 31, 2023. This increase was primarily due to the longer settlement periods to COVID-19 screening related customers and also to institutional customers, such as public hospitals.

Prepayments, Deposits and Other Receivables

Our prepayments, deposits and other receivables as of June 30, 2024 amounted to RMB239.3 million, representing an increase of approximately 19.0% as compared with RMB201.1 million as of December 31, 2023. This increase was primarily due to an extended payment plan for trade receivables from COVID-19 screening customers and an increase in prepayment of reagents and consumables.

Trade and Bills Payables

Our trade and bills payables as of June 30, 2024 amounted to RMB704.8 million, representing a decrease of approximately 5.0% as compared with RMB742.1 million as of December 31, 2023. This decrease was primarily due the reduction in COVID-19 related trade payables.

Other Payables and Accruals

Our other payables and accruals as of June 30, 2024 amounted to RMB599.0 million, representing a decrease of approximately 20.7% as compared with RMB755.5 million as of December 31, 2023. This decrease was primarily due to (i) a decrease of RMB110.9 million in payroll payables mainly resulting from the change in our Company's year-end bonus payroll cycle; and (ii) a decrease of RMB24.3 million in listing expenses.

Contract Liabilities

Our contract liabilities as of June 30, 2024 amounted to RMB21.0 million, representing a decrease of approximately 39.5% as compared with RMB34.7 million as of December 31, 2023. This decrease was primarily due to the decrease in advance payments from customers for the delivery of equipment in the first half of 2024.

Pledged Deposits

Our pledged deposits amounted to RMB927.6 million as of June 30, 2024, representing an increase of approximately 30.2% as compared with RMB712.6 million as of December 31, 2023. This increase was primarily due to an increase of RMB250.0 million in bank deposits as we drew down on an RMB denominated offshore loan used to refinance the remaining portion of our offshore USD loan in January 2024. This increase was partially offset by the scheduled repayment of pledged deposit loans, leading to the release in related pledged deposits.

Liquidity and Capital Resources

During the six months ended June 30, 2024, our Group funded cash requirements principally from cash generated from the operating activities and the net proceeds received from the Global Offering. As of June 30, 2024, we had cash and cash equivalents of RMB768.0 million, representing a decrease of approximately 20.0% as compared with RMB959.4 million as of December 31, 2023. This decrease was primarily due to the increased pledged deposits we utilized to secure our offshore RMB denominated loan.

Indebtedness

During the six months ended June 30, 2024, 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, 2024 were loans with effective annual interest rates ranging from 2.85% to 4.0% as of June 30, 2024. Our net cash position (equals cash and cash equivalents plus pledged deposits and net of interest-bearing bank borrowing) decreased by approximately 35.9% from RMB784.5 million as of December 31, 2023 to RMB502.6 million as of June 30, 2024.

Contingent Liabilities

As of June 30, 2024, 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, 2024 amounted to RMB53.7 million, representing a decrease of approximately 29.0% as compared with RMB75.6 million for the corresponding period in 2023. This decrease was primarily due to the decrease in our purchases of property and equipment as a result of the reduced rate of new laboratory openings in the first half of 2024.

Capital Commitments

Capital commitments primarily constituted our purchase of property and equipment for the construction, expansion and enhancement of our facilities.

Our capital commitments as of June 30, 2024 amounted to RMB11.8 million, representing a decrease of approximately 18.6% as compared with RMB14.5 million as of December 31, 2023.

Financial Ratios

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

	As of	
	June 30,	December 31,
	2024	2023
	(Unaudited)	(Audited)
Liquidity ratios		
Current ratio ⁽¹⁾	1.99	1.88
Quick ratio ⁽²⁾	1.91	1.78
	<hr/> <hr/>	<hr/> <hr/>
Capital adequacy ratios		
Gearing ratio ⁽³⁾	0.63	0.49
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- (1) Current assets divided 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, 2024, the Group had no charges on assets.

Future Plans for Material Investments

As of the date of this announcement, the Group does not have any concrete committed plans for material investments and capital assets in 2024.

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, 2024, we did not make any material acquisitions, significant investments or disposals of subsidiaries, associates and joint ventures.

Employees and Remuneration

As of June 30, 2024, we had a total of 6,083 employees. For the six months ended June 30, 2024, we incurred total remuneration costs of RMB412.6 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 our business operations.

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF
PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

		For the six months ended	
		June 30,	
	Notes	2024	2023
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
		<i>RMB'000</i>	<i>RMB'000</i>
REVENUE	4	1,465,701	1,644,113
Cost of sales		(905,968)	(927,105)
		<hr/>	<hr/>
Gross profit		559,733	717,008
Other income and gains		19,672	34,007
Selling and marketing expenses		(201,975)	(233,654)
Administrative expenses		(107,531)	(136,648)
Research and development costs		(58,707)	(69,051)
Other expenses		(50,024)	(66,588)
Listing expenses		—	(58,965)
Finance costs		(27,404)	(45,853)
Fair value gains on financial liabilities at FVTPL		—	11,475
		<hr/>	<hr/>
PROFIT BEFORE TAX	5	133,764	151,731
Income tax expense	6	(30,286)	(31,473)
		<hr/>	<hr/>
PROFIT FOR THE PERIOD		103,478	120,258
		<hr/> <hr/>	<hr/> <hr/>
Attributable to:			
Owners of the parent		101,582	111,807
Non-controlling interests		1,896	8,451
		<hr/>	<hr/>
		103,478	120,258
		<hr/> <hr/>	<hr/> <hr/>

		For the six months ended	
		June 30,	
	Notes	2024	2023
		<i>(Unaudited)</i>	<i>(Unaudited)</i>
		RMB'000	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		<u>(2,457)</u>	<u>(12,636)</u>
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		<u>(2,640)</u>	<u>(45,689)</u>
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		<u>(5,097)</u>	<u>(58,325)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>98,381</u>	<u>61,933</u>
Attributable to:			
Owners of the parent		96,485	53,482
Non-controlling interests		1,896	8,451
		<u>98,381</u>	<u>61,933</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
(Expressed in RMB per share)			
Basic	8	0.14	0.17
Diluted	8	<u>0.14</u>	<u>0.14</u>

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As of June 30, 2024 <i>(Unaudited)</i> RMB'000	As of December 31, 2023 <i>(Audited)</i> RMB'000
NON-CURRENT ASSETS			
Property and equipment	9	402,806	410,987
Right-of-use assets		178,910	187,390
Goodwill		79,802	79,802
Other intangible assets		146,726	151,416
Deferred tax assets		106,974	103,971
Prepayments, deposits and other receivables	11	41,094	12,575
Amounts due from related parties		1,807	2,474
Financial assets at fair value through profit or loss	12	—	1,535
Pledged deposits		555,019	300,000
		<hr/>	<hr/>
Total non-current assets		1,513,138	1,250,150
CURRENT ASSETS			
Inventories		130,867	176,593
Trade and bills receivables	10	1,676,813	1,515,434
Prepayments, deposits and other receivables	11	198,251	188,474
Financial assets at fair value through profit or loss	12	—	50,837
Amounts due from related parties		25	25
Pledged deposits		372,609	412,602
Cash and bank balances		767,961	959,423
		<hr/>	<hr/>
Total current assets		3,146,526	3,303,388
CURRENT LIABILITIES			
Trade and bills payables	13	704,785	742,108
Other payables and accruals	14	599,019	755,527
Contract liabilities		20,980	34,664
Interest-bearing bank borrowings		178,468	95,870
Profit tax payable		17,318	77,790
Amounts due to related parties		1,242	1,858
Lease liabilities		55,643	49,201
Total current liabilities		1,577,455	1,757,018
		<hr/>	<hr/>
NET CURRENT ASSETS		1,569,071	1,546,370
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,082,209	2,796,520
		<hr/> <hr/>	<hr/> <hr/>

	Notes	As of June 30, 2024 <i>(Unaudited)</i> RMB'000	As of December 31, 2023 <i>(Audited)</i> RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		1,014,502	791,647
Lease liabilities		138,252	153,117
Deferred tax liabilities		24,731	23,166
		<hr/>	<hr/>
Total non-current liabilities		1,177,485	967,930
		<hr/>	<hr/>
NET ASSETS		1,904,724	1,828,590
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Share capital	15	97	97
Treasury shares	15	(14,033)	—
Reserves		1,802,707	1,707,974
		<hr/>	<hr/>
Non-controlling interests		115,953	120,519
		<hr/>	<hr/>
Total equity		1,904,724	1,828,590
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL INFORMATION

1. CORPORATE INFORMATION

ADICON Holdings Limited (“the Company”) is a limited liability company incorporated in the Cayman Islands on March 20, 2008 and its shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since June 30, 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 June 30, 2024 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 December 31, 2023.

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 December 31, 2023, 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.

Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current (the “2020 Amendments”)</i>
Amendments to IAS 1	<i>Non-current Liabilities with Covenants (the “2022 Amendments”)</i>
Amendments to IAS 7 and IFRS7	<i>Supplier Finance Arrangements</i>

The nature and impact of the new and revised IFRSs are described below:

- (a) Amendments to IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. Since the Group has no sale and leaseback transactions with variable lease payments that do not depend on an index or a rate occurring from the date of initial application of IFRS 16, the amendments did not have any impact on the financial position or performance of the Group.

- (b) The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period.

The Group has reassessed the terms and conditions of its liabilities as at 1 January 2023 and 2024 and concluded that the classification of its liabilities as current or non-current remained unchanged upon initial application of the amendments. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

- (c) Amendments to IAS 7 and IFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. The disclosure of relevant information for supplier finance arrangements is not required for any interim reporting period during the first annual reporting period in which an entity applies the amendments. As the Group does not have supplier finance arrangements, the amendments did not have any impact on the 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.

4. REVENUE

An analysis of revenue is as follows:

(i) Disaggregated revenue information

	For the six months ended June 30,	
	2024	2023
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue from contracts with customers		
Medical diagnostic services	<u>1,465,701</u>	<u>1,644,113</u>
Timing of revenue recognition		
Goods transferred at a point in time	1,446,544	1,635,428
Services transferred over time	<u>19,157</u>	<u>8,685</u>
Total Revenue from contracts with customers	<u>1,465,701</u>	<u>1,644,113</u>

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:

	For the six months ended June 30,	
	2024	2023
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue recognized that was included in the contract liabilities balance at the beginning of period:	<u>34,664</u>	<u>21,060</u>

(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):

	For the six months ended	
	June 30,	
	2024	2023
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of services provided	749,604	811,593
Cost of inventories sold	156,364	115,512
Depreciation of property and equipment*	51,206	45,374
Depreciation of right-of-use assets*	28,611	30,141
Amortisation of other intangible assets*	4,902	3,119
Fair value gains on convertible redeemable preferred shares	—	(11,475)
Fair value gains on derivative financial instruments	(2,244)	(29)
Fair value gains on put option over non-controlling interests	—	(15,305)
Fair value loss on disposal of wealth management products	4,478	—
Research and development costs	58,707	69,051
Auditors' remuneration	1,080	3,719
Listing expenses	—	58,965
Employee benefit expense*:	412,590	505,920
Share awards	205	15,776
Salaries and other benefits	335,949	386,372
Pension scheme contributions, social welfare and other welfare	76,436	103,772
Lease payments not included in the measurement of lease liabilities	3,477	8,485
Bank interest income	(12,576)	(7,981)
Finance costs	27,404	45,853
Foreign exchange losses, net	93	993
Losses on disposal of items of property and equipment and other intangible assets	751	2,408
Gain on disposal of items of right-of-use asset, net	(56)	—
Impairment losses, net of reversal:	41,551	60,456
Financial assets under ECL model	39,488	47,068
Inventories	2,063	13,388

* The depreciation of property and equipment, depreciation of right-of-use assets, the amortisation of other intangible assets and the employee benefits for the period are 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 January 1, 2008 and applies to earnings after December 31, 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 5% since September 2023. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from January 1, 2008.

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	For the six months ended June 30, 2024	For the six months ended June 30, 2023
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%	15%
上海錦測醫學檢驗所有限公司 Shanghai Jince Clinical Laboratories Co., Ltd. (“Shanghai Adicon”)	1	15%	15%
武漢艾迪康醫學檢驗所有限公司 Adicon (Wuhan) Clinical Laboratories Co., Ltd. (“Wuhan Adicon”)	1	15%	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%	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%	15%
濟南艾迪康醫學檢驗中心有限公司 Adicon (Jinan) Clinical Laboratories Co., Ltd. (“Jinan Adicon”)	3	15%	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”)	3	15%	15%
福州艾迪康醫學檢驗所有限公司 Adicon (Fuzhou) Clinical Laboratories Co., Ltd. (“Fuzhou Adicon”)	3	15%	15%
南京艾迪康醫學檢驗所有限公司 Adicon (Nanjing) Clinical Laboratories Co., Ltd. (“Nanjing Adicon”)	3	15%	15%
河南艾迪康醫學檢驗實驗室有限公司 Henan Adicon Clinical Laboratories Co., Ltd. (“Henan Adicon”)	3	15%	25%
天津艾迪康醫學檢驗實驗室有限公司 Adicon (Tianjin) Clinical Laboratories Co., Ltd. (“Tianjin Adicon”)	3	15%	25%
成都艾迪康醫學檢測實驗室有限公司 Adicon (Chengdu) Clinical Laboratories Co., Ltd. (“Chengdu Adicon”)	4	15%	15%

Entity	Notes	For the six months ended June 30, 2024	For the six months ended June 30, 2023
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")	4	15%	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")	4	15%	15%
雲南艾迪康醫學檢驗所有限公司 Adicon (Yunnan) Clinical Laboratories Co., Ltd. ("Yunnan Adicon")	4	15%	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")	4	15%	15%
杭州艾易檢科技有限公司 Hangzhou Aiyijian Technology Co., Ltd. ("Hangzhou Aiyijian")	5	0%	0%

Notes:

- (1) In 2021, Hangzhou Adicon, Shanghai Adicon and Wuhan Adicon were accredited as "High and New Technology Enterprise" ("HNTE") and were entitled to a preferential income tax rate of 15% for a period of three years from 2021 to 2023.
- (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 2024.
- (3) In 2023, Jinan Adicon, Beijing Adicon, Fuzhou Adicon, Nanjing Adicon, Henan Adicon and Tianjin Adicon were accredited as HNTEs and were entitled to a preferential income tax rate of 15% for a period of three years from 2023 to 2025.
- (4) 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.
- (5) Hangzhou Aiyijian was qualified as an integrated circuit ("IC") manufacturer or an entity engaged in a project encouraged by the State Council during 2023 and 2024. Pursuant to Guo Fa [2020] No.8, enterprises engaged in IC design, equipping, packaging and testing, and software enterprises that are encouraged by the State Council are exempted from EIT for the first two years, starting from the first profitable year. The companies shall also receive a 50% deduction in EIT from the third to fifth years.

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

	For the six months ended	
	June 30,	
	2024	2023
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	RMB'000	RMB'000
Current income tax	31,725	61,508
Deferred income tax	(1,439)	(30,035)
	<hr/>	<hr/>
Total tax charge for the period	<u>30,286</u>	<u>31,473</u>

7. DIVIDENDS

No dividend has been paid or declared by the Company during the six months ended June 30, 2024.

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 727,289,644 (2023: 653,787,020) 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 June 30, 2023. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, 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.

The calculation of basic earnings per share is based on:

	For the six months ended	
	June 30,	
	2024	2023
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:	101,582	111,807
Less: Fair value gains on financial liabilities at FVTPL - Convertible redeemable preferred shares	—	11,475
	101,582	100,332
Ordinary shares ('000)		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	727,290	653,787
Earnings per share (RMB per share)	0.14	0.17
Effect of dilution – weighted average number of ordinary shares:		
Convertible redeemable preferred shares	—	52,472
Weighted average number of ordinary shares in issue during the period used in the dilutive earnings per share calculation	727,290	706,259
Diluted earnings per share (RMB per share)	0.14	0.14

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended June 30, 2024, the Group acquired assets at a cost of RMB45,024,000 (unaudited) (June 30, 2023: RMB80,713,000 (unaudited)).

Assets with a net book value of RMB1,999,000 (unaudited) were disposed of by the Group during the six months ended June 30, 2024 (June 30, 2023: RMB2,763,000 (unaudited)), resulting in a net loss on disposal of RMB751,000 (unaudited) (June 30, 2023: RMB2,408,000 (unaudited)).

10. TRADE AND BILLS RECEIVABLES

	As of June 30, 2024 (Unaudited) RMB'000	As of December 31, 2023 (Audited) RMB'000
Trade receivables	1,948,210	1,751,633
Bills receivable	2,636	6,174
	1,950,846	1,757,807
Allowance for expected credit losses	(274,033)	(242,373)
	1,676,813	1,515,434

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. Each customer has a maximum credit limit. 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 aforementioned and the fact that the Group's trade and bills 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.

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:

	As of June 30, 2024 (Unaudited) RMB'000	As of December 31, 2023 (Audited) RMB'000
1 month to 6 months	982,259	1,074,252
6 months to 1 year	465,690	259,156
1 year to 2 years	195,453	157,116
2 years to 3 years	32,907	24,177
3 years to 4 years	504	733
	1,676,813	1,515,434

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

	As of June 30, 2024 (Unaudited) RMB'000	As of December 31, 2023 (Audited) RMB'000
At beginning of period/year	242,373	190,307
Impairment losses, net	39,488	58,120
Write-off	(7,828)	(6,054)
At end of period/year	<u>274,033</u>	<u>242,373</u>

The Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECLs. The Group determines the ECLs on these items by using a provision matrix. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns such as ageing, historical denial and past collection experience, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. The following table details the risk profile of trade and bills receivables, the expected loss rate represents combined expected loss rate of different groupings of various customer segments:

	As at June 30, 2024		
	Amount RMB'000	Expected loss rate %	Impairment RMB'000 (Unaudited)
1 month to 6 months	1,008,111	2.56	25,852
6 months to 1 year	496,630	6.23	30,940
1 year to 2 years	303,152	35.53	107,699
2 years to 3 years	106,360	69.06	73,453
3 years to 4 years	28,440	98.23	27,936
4 years to 5 years	6,050	100.00	6,050
Over 5 years	2,103	100.00	2,103
	<u>1,950,846</u>		<u>274,033</u>

	As at December 31, 2023		
	Amount RMB'000	Expected loss rate %	Impairment RMB'000 (Audited)
1 month to 6 months	1,099,652	2.31	25,400
6 months to 1 year	301,788	14.13	42,632
1 year to 2 years	255,344	38.47	98,228
2 years to 3 years	77,425	68.77	53,248
3 years to 4 years	18,751	96.09	18,018
4 years to 5 years	3,605	100.00	3,605
Over 5 years	1,242	100.00	1,242
	<u>1,757,807</u>		<u>242,373</u>

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	As of June 30, 2024 (Unaudited) RMB'000	As of December 31, 2023 (Audited) RMB'000
Subscription receivable for exercising share options (current)	(a)	83,858	90,105
Prepayments for reagents and consumables (current)		61,271	43,877
Long-term receivables (non-current)	(b)	27,948	—
Value-added tax recoverable (current)		19,467	18,625
Deposits		19,062	20,277
– current		5,916	7,397
– non-current	(c)	13,146	12,880
Advanced payment for investment (current)	(d)	18,200	18,200
Advance lease payments for short-term leases (current)		4,675	6,325
Others (current)		5,176	3,945
		(312)	(305)
Provision of impairment			
Total		239,345	201,049

Notes:

- (a) The amount represents the subscription receivables due from executive directors, senior management and employees under Employee Incentive Plans (as defined in note 16) to settle the share options and RSUs (as defined in note 16) being exercised. The amount is not yet received by the Company due to the restrictions from the Sale and Payment of Foreign Exchange Regulations. The receivables have been classified as current as the senior management of the Company has the flexibility to settle the balance at any time.
- (b) In June 2024, Zhengzhou Adicon Clinical Laboratories Co., Ltd., a subsidiary of the Group, entered into a supplemental agreement with a customer for nucleic acid testing services completed in 2022. Pursuant to the supplemental agreement, the receivable of RMB31,900,000 (unaudited) due from the customer will be settled by three installment payments in three years. As such, the receivable has been reclassified as non-current asset and measured at present value of RMB27,948,000 (unaudited) as of June 30, 2024.
- (c) As at June 30, 2024, the balance amounting to approximately RMB18,200,000 (unaudited) represents an advance payment for the proposed acquisition of two Independent Clinical Laboratories (“ICL”s) in Henan from parties, which are independent of the Company and its connected persons, Yongcheng Meikang Shengde Medical Laboratory Co., Ltd. and Minquan County Meikang Shengde Medical Laboratory Co., Ltd. The advance payment was refundable as certain conditions were not satisfied as at June 30, 2024.
- (d) The amount represents deposits for lease of properties with over one-year lease terms and deposits with suppliers.

Analysed into:

	As of June 30, 2024 (Unaudited) RMB'000	As of December 31, 2023 (Audited) RMB'000
Current portion	198,251	188,474
Non-current portion	41,094	12,575
	<u>239,345</u>	<u>201,049</u>

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 the reporting period. In calculating the expected credit loss rate, the Group considers the historical loss rate and adjusts for forward-looking macroeconomic data. During the reporting period, 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 minimise credit risk. Long ageing 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 and no recent history of default and past due amounts, 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	As of June 30, 2024 (Unaudited) RMB'000	As of December 31, 2023 (Audited) RMB'000
Non-current			
Derivatives - interest rate cap contracts	(a)	<u>—</u>	<u>1,535</u>
Current			
Wealth management products	(b)	<u>—</u>	<u>50,837</u>

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 amounting 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 fair value through profit or loss. In January 2024, the contract is terminated in advance and the Group recorded RMB2,244,000 (unaudited) fair value gain during six months ended June 30, 2024 (six months ended June 30, 2023: RMB29,000 (unaudited) fair value gain).
- (b) In June 2023, the Group entered into an investment to purchase wealth management products. The Group has estimated the fair value of the wealth management products by using a discounted cash flow valuation model based on the expected return discounted at a rate that reflects the risk of underlying assets. The wealth management products were matured in April 2024 and the Group recorded a loss of RMB 4,478,000 (unaudited) during six months ended June 30, 2024.

13. TRADE AND BILLS PAYABLES

	As of June 30, 2024 <i>(Unaudited)</i> RMB'000	As of December 31, 2023 <i>(Audited)</i> RMB'000
Trade and bills payables	704,785	742,108

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:

	As of June 30, 2024 <i>(Unaudited)</i> RMB'000	As of December 31, 2023 <i>(Audited)</i> RMB'000
Within 1 year	636,779	667,679
1 year to 2 years	45,082	65,836
2 years to 3 years	21,191	7,016
Over 3 years	1,733	1,577
	704,785	742,108

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

14. OTHER PAYABLES AND ACCRUALS

	As of June 30, 2024 <i>(Unaudited)</i> RMB'000	As of December 31, 2023 <i>(Audited)</i> RMB'000
Payroll payables	203,064	313,959
Accruals	130,239	141,104
Accrued listing expenses	5,310	29,596
Deferred revenue	1,529	1,822
Other payables	82,798	90,554
Advance payments received for subscription of share options (a)	13,465	22,059
Payables arising from acquisitions (b)	99,306	99,306
Amount due to non-controlling shareholders (c)	63,308	57,127
	599,019	755,527

Notes:

- (a) The amount represents the Company and its subsidiaries received a total amount of RMB13,465,000 (unaudited) in previous years as at June 30, 2024 from certain domestic senior management and mid-level management of the Group for subscribing vested shares under the Employee Incentive Plans (as defined in note 16 to the financial statements). At June 30, 2024, these vested share options are legally registered. But due to the restrictions from the Sale and Payment of Foreign Exchange Regulations, the subscription received from these domestic individuals cannot freely transferred to the Company. Thus the payments are still recorded as advance payments.
- (b) The Group was obligated to purchase the remaining non-controlling interests in Shangrao Adicon Clinical Laboratory Co., Ltd. (“Shangrao Adicon”) and Jiangxi Jince BioTech Co., Ltd (“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 June 30, 2024 (December 31, 2023: RMB42,160,000), with the debit entry on recognising the put option as a debit to equity and the subsequent changes recognised 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 recognised as contingent consideration. The fair value of the contingent consideration was RMB13,337,000 (unaudited) as of June 30, 2024 (December 31, 2023: RMB13,337,000) and the subsequent fair value changes were recognised 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 June 30, 2024 (December 31, 2023: RMB43,809,000), with the debit entry on recognising the put option as a debit to equity and the subsequent changes recognised 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 RMB63,308,000 (unaudited) (December 31, 2023: RMB57,127,000) represents the revenue collected by the Group on behalf of the then shareholders as at June 30, 2024.

15. SHARE CAPITAL

	As of June 30, 2024 (Unaudited) RMB’000	As of December 31, 2023 (Audited) RMB’000
Issued and fully paid:		
727,354,791 (2023: 727,354,791) ordinary shares	97	97

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

Share capital

	Number of shares in issue	Share capital RMB'000 (Unaudited)
At June 30, 2024 (unaudited) and December 31, 2023	<u>727,354,791</u>	<u>97</u>

Treasury shares

	Number of treasury shares	Treasury shares RMB'000 (Unaudited)
At January 1, 2024 and December 31, 2023	—	—
Shares repurchased but not yet cancelled (Note)	<u>1,611,500</u>	<u>14,033</u>
At June 30, 2024 (unaudited)	<u>1,611,500</u>	<u>14,033</u>

Note:

Pursuant to the board resolution passed on May 30, 2024, the Group announced to utilize the repurchase mandate to repurchase up to 36,367,739 shares, representing 5% of the total number of issued shares as at May 30, 2024. During the six months ended June 30, 2024, 1,611,500 shares had been repurchased at a total consideration of HKD15,417,000 (equivalent to approximately RMB14,033,000 (unaudited)). As at June 30, 2024, the Company repurchased 94,500 shares for cancellation but had not been cancelled and 1,517,000 share for treasury shares.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Compliance with the CG Code

The Company has adopted the code provisions of the CG Code and regularly reviews its compliance with the CG Code. The Board has committed to maintaining good corporate governance standards. The Board believes that good corporate governance standards are essential in providing framework for the Group to safeguard the interests of Shareholders and to enhance corporate value and accountability.

To the best knowledge of the Directors, the Company has complied with all applicable code provisions of the CG Code for the six months ended June 30, 2024 and up to the date of this announcement.

Compliance with the Model Code

The Company has adopted the Model Code as its code of conduct regarding dealing in the securities of the Company by the Director and the Group's senior management who, because of their office or employment, are likely to possess inside information of the Company and/or securities. Specific enquiry has been made of all the Directors and they have confirmed their compliance with the Model Code for the six months ended June 30, 2024 and up to the date of this announcement. In addition, no incident of non-compliance of the Model Code by the senior management of the Group was noted for the six months ended June 30, 2024 and up to the date of this announcement.

In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its Directors and senior management in advance.

Purchase, Sale or Redemption of Listed Securities

On June 4, 2024, the Board resolved to repurchase Shares in the open market not more than 72,735,479 Shares from time to time, pursuant to the general mandate granted to the Directors, approved by the Shareholders at the annual general meeting dated May 30, 2024. For further details, please refer to the announcement dated June 4, 2024.

During the six months ended June 30, 2024 and up to the date of this announcement, the Company has repurchased 1,611,500 Shares on the Stock Exchange at an aggregate consideration of HK\$15,416,833.24 (including brokerage and other fees), of which (i) 94,500 Shares repurchased are to be cancelled (but have not yet been cancelled as of the date of this announcement); and (ii) 1,517,000 Shares repurchased are held as treasury shares.

As at June 30, 2024, the Company held 1,517,000 Shares intended to be held as treasury shares. As at the date of this announcement, the Company has not determined on the intended use of such treasury shares. The Company will utilize them as permitted under the Listing Rule, subject to, market conditions and its capital management needs.

Details of the Shares repurchased are summarized as follows:

Month of repurchase	Total number of Shares repurchased	Repurchase price per Share		Aggregate consideration (including brokerage and other fees) HK\$
		Highest HK\$	Lowest HK\$	
June 2024	1,611,500	10.12	8.14	15,416,833.24

Save as disclosed above, neither the Company nor any member of the Group has purchased, sold or redeemed any of the listed securities of the Company (including the sale of treasury shares) for the six months ended June 30, 2024 and up to the date of this announcement.

Audit Committee and Review of Financial Statements

The Group's unaudited consolidated interim financial statements for the six months ended June 30, 2024 have been prepared in accordance with IFRS and 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. YE H Richard (chairman), Mr. ZHANG Wei and Mr. MI Brian Zihou. 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, 2024. 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.

Scope of Auditor’s Work

The figures in respect of the Group’s unaudited consolidated financial information for the six months ended June 30, 2024 as set out in this announcement have been agreed by the Company’s auditors, Ernst & Young. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on this announcement.

Use of Proceeds

The total net proceeds from the Global Offering (after deduction of underwriting commissions and related costs and expenses) amounted to RMB230.9 million.

The net proceeds raised from the Global Offering will be used in the manner as disclosed in the section headed “Future Plans and Use of Proceeds” of the Prospectus. The Company has no plans to deviate from the use of proceeds and the business strategies disclosed in the Prospectus.

The table below sets forth the details of the utilization of net proceeds received from the Global Offering:

Description	Total percentage amount	Intended use of proceeds <i>(RMB in millions)</i>	Utilized amount as of December 31, 2023 <i>(RMB in millions)</i>	Utilized amount during the Reporting Period <i>(RMB in millions)</i>	Unutilized amount as of June 30, 2024 <i>(RMB in millions)</i>	Expected timeline for utilizing for the unutilized net proceeds
Strengthening our routine and esoteric testing capabilities	15.0%	34.6	19.6	8.3	6.7	December 31, 2024
Network expansion through establishing new laboratories, partnership investments and development of new channels	25.0%	57.7	13.4	25.8	18.5	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	14.3	30.4	13.0	December 31, 2024
Upgrade and expansion of our existing laboratories	15.0%	34.6	13.1	10.1	11.3	December 31, 2024
Investment in operating infrastructure including logistics facilities, artificial intelligence technologies and IT infrastructure	10.0%	23.1	10.8	4.6	7.7	December 31, 2024
Working capital and general corporate purpose	10.0%	23.1	7.4	9.2	6.5	December 31, 2024
Total	100.0%	230.9	78.6	88.4	63.8	

Events after the six months ended June 30, 2024

The Directors are not aware of any significant events requiring disclosure that took place subsequent to June 30, 2024 and up to the date of this announcement.

Interim Dividends

The Board does not recommend the payment of interim dividends for the six months ended June 30, 2024 (for the six months ended June 30, 2023: nil).

Publication of Interim Results Announcement and Interim Report

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

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

DEFINITIONS

“associates”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Board”	the board of directors of our Company
“China” or “the PRC”	the People’s Republic of China, but for the purpose of this announcement and for geographical reference only and except where the context requires, references in this announcement to “China” and the “PRC” do not include Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“CG Code”	the Corporate Governance Code as set out in Appendix C1 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
“Director(s)”	the director(s) of our Company
“FVTPL”	fair value through profit or loss
“Global Offering”	the global offering of Shares by the Company, including the exercise of the over-allotment option, as described in the Prospectus

“Group”, “our Group” or “the Group”	the Company, its subsidiaries and 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
“IFRS”	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
“Listing Date”	June 30, 2023
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix C3 of the Listing Rules
“Prospectus”	the prospectus issued by the Company on June 19, 2023
“Renminbi” or “RMB”	Renminbi, the lawful currency of China
“R&D”	research and development
“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 under the Listing Rules
“treasury share(s)”	has the meaning ascribed to it under the Listing Rules
“%”	per cent

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

Hong Kong, August 30, 2024

As at the date of this announcement, the Board comprises Mr. GAO Song as executive Director; Ms. YANG Ling, Mr. LIN Jixun, Ms. FENG Janine Junyuan and Mr. ZHOU Mintao as non-executive Directors; and Mr. MI Brian Zihou, Mr. YE H Richard and Mr. ZHANG Wei as independent non-executive Directors.