

ANNUAL REPORT 2023



ADICON

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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DEFINITION

“ACON Biotech”	ACON Biotech (Hangzhou) Company Limited (艾康生物技術(杭州)有限公司), a limited liability company established in the PRC on May 2, 1995, a connected person of the Company
“AI”	artificial intelligence
“Aidiken WFOE”	Aidiken (Hangzhou) BioTech Co., Ltd. (艾迪肯(杭州)生物科技有限公司), a limited liability company established in the PRC on July 18, 2008, an indirect wholly-owned subsidiary of the Group
“Annual General Meeting” or “AGM”	the annual general meeting of the Company proposed to be held on Thursday, May 30, 2024
“Articles of Association”	the articles of association of the Company, as amended from time to time
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“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)
“Cayman Companies Law”	the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“China” or “PRC”	the People’s Republic of China, and for the purpose of this annual report only and except where the context requires, references in this annual report to “China” and the “PRC” do not include Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“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
“Contractual Arrangements”	the series of contractual arrangements entered into by Aidiken WFOE, Hangzhou Adicon and the Contractual Registered Shareholders
“Contractual Registered Shareholders”	Ms. LAN Jia (蘭佳), Ms. LIAN Hailun (連海倫) and Hangzhou Kangming
“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 the founders of the Group and a non-executive Director

DEFINITION

"Corporate Governance Code"	the Corporate Governance Code as set out in Appendix C1 to the Listing Rules
"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)"	director(s) of the Company
"ESG"	Environmental, Social and Governance
"ESG Report Guide"	the Environmental, Social and Governance Reporting Guide as set out in Appendix C2 to the Listing Rules
"Financial Statements"	the consolidated financial statements of the Group for the year ended December 31, 2023 as audited by Ernst & Young
"FVTPL"	fair value through profit or loss
"Global Offering"	the global offering of Shares by the Company on the terms and conditions described in the Prospectus
"Group," "our Group" or "the Group"	the Company, its subsidiaries and consolidated affiliated entities from time to time
"Hangzhou Adicon"	Adicon (Hangzhou) Clinical Laboratories Co., Ltd. (杭州艾迪康醫學檢驗中心有限公司), a limited liability company established in the PRC on January 16, 2004, one of the PRC Operating Entities controlled by the Group through the Contractual Arrangements
"Hangzhou Kangming"	Hangzhou Kangming Shengjin Technology Partnership (Limited Partnership) (杭州康銘盛錦科技合夥企業(有限合夥)), a limited partnership established in the PRC on August 12, 2020, which is a registered shareholder of Hangzhou Adicon and with its limited partners of certain employees of the Group
"HK\$", "HKD" or "HK 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 by the International Accounting Standards Board
"IT"	information technology
"LIS"	laboratory information system

DEFINITION

“Listing Date”	June 30, 2023
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the GEM of the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules
“Nomination Committee”	the nomination committee of the Board
“PRC Operating Entities”	the entities controlled by the Group through the Contractual Arrangements, namely Hangzhou Adicon and its subsidiaries
“Prospectus”	the prospectus issued by the Company on June 19, 2023
“Remuneration Committee”	the remuneration committee of the Board
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“RSU(s)”	the restricted share units
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) in the share capital of the 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
“Strategy Committee”	the strategy committee of the Board
“subsidiary” or “subsidiaries”	has the meaning ascribed to it in section 15 of the Companies Ordinance
“2019 Incentive Plans”	the senior executive incentive plan of the Company and the senior management incentive plan of the Company adopted and approved on July 9, 2019, as amend from time to time
“2024 Incentive Plan”	the 2014 incentive plan of the Company adopted and approved on March 28, 2024, as amend from time to time
“%”	percentage

CHAIRWOMAN'S STATEMENT

2023 was a landmark year for ADICON - We celebrated our 20th anniversary, and it was also our first year since our initial public offering. In this challenging year, we not only demonstrated extraordinary resilience, but also achieved remarkable results. On behalf of our Company's management, I would like to express my heartfelt gratitude and profound respect to all our supportive Shareholders, customers and employees.

OUR PERFORMANCE

After the COVID-19 pandemic, the entire ICL industry is striving to break free from reliance on COVID-19-related businesses and to achieve rapid growth. In 2023, our overall operational capabilities reached a new height. Despite our total revenue in 2023 decreased by approximately 32.2% compared to 2022 due to a significant decrease in demand for our COVID-19-related services, the decline rate was much lower than the industry average. Excluding the impact of COVID-19-related businesses, the revenue from our regular business increased by more than 15% in 2023 compared to 2022. Specifically, the revenue from our esoteric tests, which we have been focusing on, significantly increased by more than 40% in 2023 compared to 2022. Further, our technical services also achieved very positive development. Furthermore, compared to 2019, our total revenue increased by more than 90%, and the number of customers increased by more than 40%, demonstrating our steady growth momentum and wide market recognition. In terms of financial indicators, our gross profit margin continue to maintain at a industry-leading levels, thanks to our continuous focus on cost control, ongoing improvement in operational efficiency and strategic investments in high-growth potential businesses. Additionally, our healthy gearing ratio and ample cash reserves provide solid financial support for our ongoing development and prudent management when facing potential risks in the future.

This year, ADICON's laboratory capacity development made significant progress. In terms of quality construction, 20 out of our 36 ICLs nationwide obtained ISO 15189 accreditation, maintaining a leading position in the ICL industry. In terms of technical capacity enhancement, following the establishment of our Quality Spectrum Technology Center last year, we have subsequently established six technology centers, which, leveraging our strong R&D capabilities and interdisciplinary cooperation networks, conducted cutting-edge research in molecular pathology, bioinformatics analysis and other advanced technologies, providing scientific basis for precise diagnosis and treatment of various diseases such as genetic diseases and cancer. Moreover, our cooperation with Guardant Health (NASDAQ: GH), a leading global liquid biopsy companion diagnostics company, which has attracted significant attention from the capital markets and the industry, has successfully debuted in China, with products formally launched domestically in September 2023, and sample testing begun in December 2023. In addition, we are actively exploring a direct-to-consumer business model with a view to opening new growth opportunities for our Company.

2023 was also the initial year of ADICON's comprehensive digital upgrades. Our new laboratory information system (LIS) was successfully launched in Jinan, significantly enhancing the review and generation efficiency of certain reports by nearly 10 times, realizing a transition from manual recording to automated processing. In addition, artificial intelligent (AI) technology has also been extensively integrated into our pathology slide examinations. These digital upgrades have brought about significant changes in our business operations, management and efficiency. In addition, taking social responsibility with practical actions, we are committed to the compliant discharge of waste and strict monitoring, with a target of reducing 1% to 3% emission every year. This commitment not only reflects our dedication to environmental protection, but also lays a solid foundation for our sustainable development.

CHAIRWOMAN'S STATEMENT

OUTLOOK

Looking forward, we are confident in the continued development of our Company. The rollout of new policies in the PRC such as centralized procurement, healthcare payment reforms and tiered diagnosis and treatment is expected to further increase the outsourcing rate of medical payors, fostering substantial growth in the ICL industry. Further, as industry regulations in the PRC become more standardized and specialized, industry leaders with economies of scale are expected to gain more market resources. We are committed to implementing our strategy of penetrating into lower-tier markets, and tapping into markets that have not yet been fully developed. To support this strategy and strengthen our competitive advantage, we continue to focus on developing new testing methods and actively applying innovative technologies. This not only enhances our service quality and efficiency, but also provides our customers with more diversified choices. We also prioritize on advancing intelligent management and decision-making, particularly through extensive integrations of AI technology. By integrating AI technology into our daily operations and decision-making processes, we can more accurately predict market trends and optimize resource allocation, thereby improving our overall operational efficiency and responsiveness to market changes. Furthermore, we selectively seek strategic investments and alliances, and explore other emerging growth opportunities, with a view to maintaining and strengthening our leading position in this competitive industry.

As we enter our third decade, we firmly believe that continuous innovation, unwavering commitment to quality, and ongoing optimization of customer service will be crucial for addressing future challenges and seizing opportunities. We will continue to invest in technological innovation, expand our business scope and strengthen strategic alliances with global partners to adapt to evolving market demands.

APPRECIATION

Finally, I would like to express my gratitude once again to all our Shareholders, customers and employees for their trust and support in ADICON. We look forward to working together with you to create an even brighter future for our Company.

Ms. YANG Ling

Chairwoman

March 28, 2024



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Director

Mr. GAO Song (*Chief Executive Officer*)

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

Third Floor, Century Yard

Cricket Square

P.O. Box 902

Grand Cayman, KY1-1103

Cayman Islands

PRINCIPAL PLACE OF BUSINESS AND HEADQUARTERS IN THE PRC

No. 208, Zhenzhong Road

West Lake District

Hangzhou, the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1303, 13/F, Golden Centre

188 Des Voeux Road Central

Sheung Wan

Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Services (Cayman Islands) Limited

Third Floor, Century Yard

Cricket Square P.O. Box 902

Grand Cayman, KY1-1103

Cayman Islands

CORPORATE INFORMATION

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited

17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

HONG KONG LEGAL ADVISOR

Kirkland & Ellis
26th Floor, Gloucester Tower
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
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Quarry Bay
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COMPLIANCE ADVISER

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STOCK CODE

9860



FOUR-YEAR FINANCIAL REVIEW

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

For the year ended December 31,				
	2023	2022	2021	2020
	<i>(RMB in thousands)</i>			
Revenue	3,297,828	4,860,613	3,379,515	2,741,731
Gross profit	1,434,107	1,896,165	1,442,389	1,116,660
Profit before tax	349,372	820,812	417,243	358,185
Profit for the year	262,322	684,884	322,295	289,453
Profit attributable to owners of the parent	234,885	680,793	315,540	284,121

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31,				
	2023	2022	2021	2020
	<i>(RMB in thousands)</i>			
ASSETS				
Non-current assets	1,250,150	959,261	571,734	388,629
Current assets	3,303,388	3,894,972	2,538,104	2,334,912
Total Assets	4,553,538	4,854,233	3,109,838	2,723,541
LIABILITIES				
Non-current liabilities	967,930	1,823,465	869,217	675,453
Current liabilities	1,757,018	2,418,432	1,387,774	1,008,970
Total Liabilities	2,724,948	4,241,897	2,256,991	1,684,423
EQUITY				
Total Equity	1,828,590	612,336	852,847	1,039,118

KEY FINANCIAL HIGHLIGHTS

	For the year ended December 31,	
	2023 (RMB'000)	2022 (RMB'000)
Revenue	3,297,828	4,860,613
Gross Profit	1,434,107	1,896,165
Profit for the year	262,322	684,884
<i>Attributable to:</i>		
Owners of the parent	234,885	680,793
Non-controlling interests	27,437	4,091
Earnings per Share		
Basic	0.34	1.04
Diluted	0.31	0.96

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 36 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 were accredited by ISO15189, which enabled 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.

The end of 2022 saw the lifting of COVID-19-related restrictions in China, which caused significant disruption to the healthcare services sector until the first few months of 2023. Although the impact of the COVID-19 pandemic gradually diminished with a stronger year-over-year recovery in the latter part of the first quarter and the second quarter of 2023, a weaker-than-expected recovery in the macroeconomy and consumer sentiment dampened growth in the second half of 2023. Hence, while we see year-on-year improvements in our base business growth in 2023, the broader macroeconomic conditions continue to provide headwinds. For the year ended December 31, 2023, our Group recorded a revenue of RMB3,297.8 million, representing a decrease of 32.2% as compared to the corresponding period of 2022. Our Group's profit for the year decreased by 61.7% to RMB262.3 million for the year ended December 31, 2023.

Despite these challenges, we remain committed to expanding our service offerings, improving efficiency and broadening and deepening our network coverage. We are optimistic that our investments and our achievements in 2023 position us well when broader conditions improve. In particular, we achieved significant progress in several aspects in 2023:

- Since 2018, we have significantly expanded our testing portfolio, increasing from approximately 1,800 to over 4,000 by the end of 2023. Our network of self-operated ICLs across China also grew from 33 at the end of 2022 to 36 at the end of 2023. These expansions reflected not only our commitment to enhancing our technologies and services, but also our deep understanding of and response to customer demands.
- As we focus on developing our esoteric testing areas, including blood, tumors, infections, maternity and pediatrics, and reproduction, we recorded a revenue increase of more than 40% across all esoteric testing categories in 2023. Our technical services also achieved strong growth, with a year-on-year revenue increase of more than 50% in 2023. These demonstrate our continuous improvements in market competitiveness and influence.
- In terms of technology and systems, we completed the development of a new LIS system in 2023, and achieved comprehensive upgrades of other systems including major data platform, order management system (OMS), report platform, pathology information system, and AiLogistics (艾物流) system. We are committed to constructing a new generation of digitalized testing platform to improve efficiency and service quality.
- In response to medical fee control initiative of the PRC government, we actively explored multi-model operation strategies, including outsourcing bidding by private hospitals or medical groups, cooperation and co-construction, collective procurement, and demand based equipment deployment, thereby achieving wider market coverage and more efficient resource utilization.
- Three of our subsidiaries were newly recognized as national high and new technology enterprises, bringing our total to 12 subsidiaries with this recognition as of December 31, 2023. This recognition underscores not only our technological and innovative capabilities but also our potential for long-term development. In addition, our Company was included in the Hang Seng Composite Index, Southbound Trading, and MSCI Index in 2023, in recognition of our comprehensive capability and market performance.

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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 afflicted 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

Focus on the lower-tier markets, helping to solve the uneven resource and geographic provision of healthcare services

The distribution of medical resources across China's regions remains uneven, with resources concentrated in certain provinces and cities. The development of medical institutions is unbalanced, with overcrowded tertiary hospitals providing an outsized share of China's medical services. ICLs are uniquely positioned to enable lower tier hospitals to provide a broader range of diagnostic testing services than these hospitals are able to provide themselves. ICLs, with their broad and specialized testing menus and economies of scale, are able to support county and township-level healthcare facilities by providing high-quality medical testing as comprehensive as that offered by tertiary hospitals. This approach contributes significantly to improving the level of medical diagnosis and treatment at the grassroots level, as well as service capacity, and helps to address the problem of uneven and inadequate distribution of medical resources.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

Revenue

Our revenue for the year ended December 31, 2023 amounted to RMB3,297.8 million, representing a decrease of approximately 32.2% as compared with RMB4,860.6 million for the year ended December 31, 2022. This decrease was primarily due to a significant decrease in demand for our COVID-19-related services. However, with the lifting of COVID-19 restrictions, demand for our non-COVID-19 testing services rebounded.

Cost of Sales

Our cost of sales for the year ended December 31, 2023 amounted to RMB1,863.7 million, representing a decrease of approximately 37.1% as compared with RMB2,964.4 million for the year ended December 31, 2022. This decrease was generally in line with the decrease in our revenue as our costs in connection 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 RMB1,434.1 million for the year ended December 31, 2023, as compared with RMB1,896.2 million for the year ended December 31, 2022.

Gross profit margin is calculated as gross profit divided by revenue. The overall gross profit margin of our Group was 43.5% for the year ended December 31, 2023, compared with 39.0% for the year ended December 31, 2022. The increase in gross profit margin was primarily due to (i) the reduction in raw material costs as compared to 2022; (ii) the implementation of various cost control optimization measures during 2023; and (iii) the increasing mix shift towards increased contribution of higher margin esoteric tests.

Selling and Marketing Expenses

Our selling and marketing expenses for the year ended December 31, 2023 amounted to RMB485.2 million, representing a decrease of approximately 12.3% as compared with RMB553.3 million for the year ended December 31, 2022. This decrease was primarily due to a decrease of RMB66.0 million in staff costs due to lower year-end bonus and outsourcing service fees we incurred in relation to COVID-19 related business.

Administrative Expenses

Our administrative expenses for the year ended December 31, 2023 amounted to RMB271.0 million, representing a decrease of approximately 4.0% as compared with RMB282.3 million for the year ended December 31, 2022. This decrease was primarily due to cost reduction efforts, but was countered by the establishment of new subsidiaries and ICLs in 2023, resulting in an increase in the corresponding office expenses, staff costs and other consulting and professional service fees.

MANAGEMENT DISCUSSION AND ANALYSIS

R&D Expenses

Our R&D expenses for the year ended December 31, 2023 amounted to RMB143.5 million, representing a decrease of approximately 11.8% as compared with RMB162.7 million for the year ended December 31, 2022. This decrease was primarily due to a decrease of RMB12.8 million in costs for reagents and consumables purchased for R&D purposes as part of overall cost control efforts.

Other Expenses

Our other expenses for the year ended December 31, 2023 amounted to RMB99.6 million, representing a decrease of approximately 22.4% as compared with RMB128.4 million for the year ended December 31, 2022. This decrease was primarily because of the reduction in the provisions of ECL in 2023 over 2022. Such decrease was partially offset by an increase of RMB14.6 million in impairment losses, net of reversal on inventories due to excess COVID-19-related materials in 2023.

Listing Expenses

During the year ended December 31, 2023, our Company incurred listing expenses of RMB72.2 million in connection with the Global Offering.

Other Income and Gains

Our other income and gains for the year ended December 31, 2023 amounted to RMB61.6 million, representing an increase of approximately 21.3% as compared with RMB50.8 million for the year ended December 31, 2022. This increase was primarily due to (i) an increase of RMB11.3 million in bank interest income; and (ii) an increase of RMB4.1 million in government grants, primarily consisting of employment and enterprise supporting grants and high-tech enterprise grants.

Finance Costs

Our finance costs for the year ended December 31, 2023 amounted to RMB86.3 million, representing an increase of approximately 12.4% as compared with RMB76.8 million for the year ended December 31, 2022. This increase was primarily due to the increase in interest expenses on our offshore USD-denominated bank borrowings.

Income Tax Expenses

Our income tax expenses for the year ended December 31, 2023 amounted to RMB87.1 million, representing a decrease of approximately 36.0% as compared with RMB135.9 million for the year ended December 31, 2022. 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 2023.

Profit for the Year

As a result of the foregoing, our profit for the year decreased by approximately 61.7% from RMB684.9 million for the year ended December 31, 2022 to RMB262.3 million for the year ended December 31, 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

Selected Items from the Consolidated Statement of Financial Position

Current Assets/Liabilities

Our total current assets decreased to RMB3,303.4 million as of December 31, 2023 from RMB3,895.0 million as of December 31, 2022, and our total current liabilities decreased to RMB1,757.0 million as of December 31, 2023 from RMB2,418.4 million as of December 31, 2022.

Inventories

Our inventories as of December 31, 2023 amounted to RMB176.6 million, representing a decrease of approximately 23.0% as compared with RMB229.4 million as of December 31, 2022. This decrease was primarily due to a decrease in our purchases of reagents and consumables as a result of the reduced demand for our COVID-19-related services.

Trade and Bills Receivables

Our trade and bills receivables as of December 31, 2023 amounted to RMB1,515.4 million, representing a decrease of approximately 18.4% as compared with RMB1,856.8 million as of December 31, 2022. This decrease was primarily due to enhanced measures taken by our Company to improve recoverability of our trade receivables.

Prepayments, Deposits and Other Receivables

Our prepayments, deposits and other receivables as of December 31, 2023 amounted to RMB201.1 million, representing an increase of approximately 42.9% as compared with RMB140.7 million as of December 31, 2022. This increase was primarily due to the subscription amounts of RMB90.1 million receivable from our executive Director, senior management and employees under the 2019 Incentive Plans for the purposes of exercising the share options and RSUs granted to them. Such increase was partially offset by (i) a decrease of RMB12.7 million in deferred listing expenses; and (ii) a decrease of RMB10.7 million prepayments for reagents and consumables as a result of the reduced demand for our COVID-19-related services.

Trade and Bills Payables

Our trade and bills payables as of December 31, 2023 amounted to RMB742.1 million, representing a decrease of approximately 30.2% as compared with RMB1,062.5 million as of December 31, 2022. This decrease was generally in line with the decrease in our cost of sales.

Financial Assets at FVPTL

Our non-current financial assets at FVPTL amounted to RMB1.5 million as of December 31, 2023, representing a decrease of approximately 81.1% as compared with RMB8.1 million as of December 31, 2022. This decrease was primarily due to the unwinding of portion of interest rate cap contracts with independent third party financial institutions due to a paydown of the underlying USD-denominated offshore bank borrowings during 2023.

Our current financial assets at FVPTL amounted to RMB50.8 million as of December 31, 2023, as compared with nil as of December 31, 2022. This change was primarily due to our investment in wealth management products purchased from an independent third party financial institution during 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Payables and Accruals

Our other payables and accruals as of December 31, 2023 amounted to RMB755.5 million, representing a decrease of approximately 23.3% as compared with RMB985.1 million as of December 31, 2022. This decrease primarily due to (i) a decrease of RMB124.4 million in payroll payables, mainly comprising employee bonuses and social insurance paid when due; (ii) a decrease of RMB75.0 million in advance payments received from certain domestic employees for subscribing vested Shares under the 2019 Incentive Plans as a result of exercise; (iii) a decrease of RMB33.4 million in payables relating to our acquisitions of Shangrao Adicon and Jiangxi Jince; and (iv) a decrease of RMB31.1 million in accruals, mainly consisting 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 RMB18.6 million.

Contract Liabilities

Our contract liabilities as of December 31, 2023 amounted to RMB34.7 million, representing an increase of approximately 64.6% as compared with RMB21.1 million as of December 31, 2022. This increase was primarily due to the increase in advances received from customers as we expanded our business.

Pledged deposits

Our current pledged deposits amounted to RMB412.6 million as of December 31, 2023 and our non-current pledged deposits amounted to RMB300.0 million as of December 31, 2023, as compared with nil as of December 2022. These pledged deposits were primarily used to secure a loan of RMB600.0 million with a commercial bank, enabling us to refinance the majority of our existing USD-denominated offshore bank borrowings. None of these deposits are either past due or impaired. These pledged deposits will be released upon the repayment of the relevant loans.

Liquidity and Capital Resources

During the year ended December 31, 2023, our Group funded cash requirements principally from cash generated from the operating activities and the net proceeds received from the Global Offering. As of December 31, 2023, we had cash and cash equivalents of RMB959.4 million, representing a decrease of approximately 42.9% as compared with RMB1,680.6 million as of December 31, 2022. This decrease was primarily due to the RMB670.0 million of pledged deposits utilized to refinance our USD-denominated offshore bank borrowings into lower interest bearing instruments. Inclusive of our pledged deposits, our total cash requirements was RMB1,672.0 million as of December 31, 2023.

Indebtedness

During the year ended December 31, 2023, we incurred new RMB-denominated bank borrowings to refinance the majority of our existing USD-denominated offshore bank borrowings, which resulted in an overall reduction in our interest-bearing bank borrowings from RMB1,136.1 million as of December 31, 2022 to RMB887.5 million as of December 31, 2023. All of the interest-bearing bank borrowings during the year ended December 31, 2023 were loans with effective annual interest rates ranging from 2.85% to 7.67% as of December 31, 2023. Our net cash position (equals cash and cash equivalents plus pledged deposits and net of interest-bearing bank borrowing) increased by 44.1% from RMB544.5 million as of December 31, 2022 to RMB784.5 million as of December 31, 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

Contingent Liabilities

As of December 31, 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 relationships.

Our capital expenditures for the year ended December 31, 2023 amounted to RMB165.4 million, representing a decrease of approximately 44.4% as compared with RMB297.4 million for the year ended December 31, 2022. This decrease was primarily due to (i) a decrease in our purchases of property and equipment as a result of the reduced demand for our COVID-19-related services; and (ii) a decrease in our purchases of non-recurring intangible assets from Guardant Health (NASDAQ: GH) in relation to our partnership agreement with them.

Capital Commitments

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

As of December 31,		
	2023 (RMB'000)	2022 (RMB'000)
Contracted, but not provided for acquisition of property and equipment	14,546	15,418

Financial Ratios

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

As of December 31,		
	2023	2022
Liquidity ratios		
Current ratio ⁽¹⁾	1.88	1.61
Quick ratio ⁽²⁾	1.78	1.52
Capital adequacy ratio		
Gearing ratio ⁽³⁾	0.49	1.86

Notes:

- (1) Current assets divided by current liabilities as of the end of the years.
- (2) Current assets less inventories divided by current liabilities as of the end of the years.
- (3) Total borrowings divided by total equity as of the end of the years.

MANAGEMENT DISCUSSION AND ANALYSIS

Charges on Assets

As of December 31, 2023, the Group had no charges on assets.

Future Plans for Material Investments

As of the date of this report, 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 year ended December 31, 2023, we did not make any material acquisitions, significant investments or disposals of subsidiaries, associates and joint ventures.

Employees and Remuneration

As of December 31, 2023, we had a total of 5,713 employees (as of December 31, 2022: 6,128 employees). For the year ended December 31, 2023, we incurred total remuneration costs of RMB975.4 million (for the year ended December 31, 2022: RMB1,206.7 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 our business operations.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Company as of the date of this annual report are set out as follows:

EXECUTIVE DIRECTOR

Mr. GAO Song (高嵩), aged 51, has served as our executive Director and chief executive officer since November 2021. Prior to his appointment to the Board, he served as our vice president of business operations from December 2019 to November 2021 and was responsible for (i) overall management of our sales force, marketing team and commercial operations; (ii) supervision of our technical support team for in-house hospital laboratory service lines; (iii) relationship management of CRO and biopharma customers; and (iv) supervision of our DTC business lines.

Mr. GAO served as a general manager of Shanghai Yaoshiquanyun Health Technology Development Co., Ltd. (上海鑰世圈雲健康科技發展有限公司) from July 2019 to December 2019. He also held various positions at GlaxoSmithKline (China) Investment Co., Ltd. (葛蘭素史克中國投資有限公司) from September 1997 to April 2019, a subsidiary of GlaxoSmithKline PLC (LSE: GSK; NYSE: GSK) including as vice president and head of respiratory BU, head of commercial excellence department, head of hepatitis sales department, North-China sales director in respiratory and antibiotics and sales excellence manager in esprit program in GSK house in London.

Mr. GAO received his bachelor's degree in biochemistry from Fudan University (復旦大學) in China in July 1995, and his master's degree in business management from China Europe International Business School (中歐國際工商學院) in China in September 2009.

NON-EXECUTIVE DIRECTORS

Ms. YANG Ling (楊凌), aged 44, is the chairwoman of the Board and one of our non-executive Directors. Ms. YANG led the investment by Pearl Group Limited in our Company in October 2018, and became the chairwoman of our Company at that time. She is a managing director of Carlyle's Asia Buyout Fund and has co-headed Carlyle Asia Healthcare since November 2021 and has headed Carlyle China since January 2024. She joined Carlyle Asia as a vice president in May 2011.

Ms. YANG has served as (i) a non-executive director of HUTCHMED (China) Limited (和黃醫藥(中國)有限公司) (HKEX:0013) since July 2023; (ii) a non-executive director of Shenzhen Salubris Pharmaceuticals Co., Ltd. (深圳信立泰藥業股份有限公司) (SZSE: 002294) from October 2020 to December 2023; and (iii) a non-executive director of Ambio Pharmaceuticals since October 2020. Ms. YANG also worked (i) at KKR Asia Limited from July 2008 to February 2011, where her last position was a principal primarily responsible for carrying out investments made by KKR Asia Limited; (ii) as an associate in Carlyle's U.S. leveraged buyout healthcare group from May 2005 to August 2006; and (iii) as an analyst in the investment banking division of The Goldman Sachs Group, Inc. from July 2002 to July 2004.

Ms. YANG graduated summa cum laude and as a member of the Phi Beta Kappa with bachelor's degrees in economics and computer science from Smith College in the United States in May 2002, and she received her master's of business administration from Harvard Business School in the United States in June 2008.

Mr. LIN Jixun (林繼迅), aged 59, is one of our non-executive Directors and is one of our founders. Mr. LIN was an executive director of our Company between February 2014 and October 2018, and has been a passive financial investor of our Group and a non-executive Director since October 2018.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

From November 2007 to December 2010, he served as an independent director of Mindray Medical International Limited (邁瑞醫療國際有限公司) (NYSE: MR, from September 2006 to March 2016; and then SZSE: 300760, since October 2018). Prior to founding our Group, Mr. Lin founded ACON Laboratories Inc. ("**ACON Laboratories**") in 1995 and currently serves as its director. ACON Laboratories is the U.S.-incorporated affiliate of ACON Biotech.

Mr. LIN received his bachelor's degree in medicine from Zhejiang University School of Medicine (浙江大學醫學院) (formerly known as Zhejiang Medical University (浙江醫科大學)) in China in July 1987, and his doctoral degree in philosophy from Medical University of South Carolina in the United States in December 1995.

Ms. FENG Janine Junyuan (馮軍元), aged 55, is one of our non-executive Directors effective from August 2020. Ms. FENG joined Carlyle Management Hong Kong Limited of Carlyle in October 1998 and is currently holding the position of managing director of Carlyle Asia Buyout Fund. Prior to joining Carlyle, she worked in the global project finance group of the investment banking department at Credit Suisse First Boston Corporation from July 1992 to June 1994 and then August 1996 to September 1998. Ms. FENG also served as (i) a director of Meinian Onehealth Healthcare Holdings Co., Ltd. (美年大健康產業控股股份有限公司) (SZSE: 002044) from October 2015 to February 2019, (ii) a non-executive director of MicroPort Scientific Corporation (微創醫療科學有限公司) (HKEX: 853) from March 2016 to November 2018, and (iii) a director of Hedy Holding Company Limited (七喜控股股份有限公司) (now known as Focus Media Information Technology Co., Ltd. (分眾傳媒資訊技術股份有限公司)) (SZSE: 002027) from January 2016 to November 2016. Ms. FENG was appointed as an independent non-Executive director and the audit committee member of Jardine Matheson Holdings Limited, a multinational conglomerate primary listing on the London Stock Exchange (LSE: JAR) and secondary listings on the Singapore Exchange Limited (SGX: J36) and Bermuda Stock Exchange (BSX: JMHBD.BH), since May 2023.

Ms. FENG graduated summa cum laude and as a member of Phi Beta Kappa with Bachelor of Arts degree in mathematics, computer science and economics from Middlebury College in the United States in 1992, and she received her master's of business administration from Harvard University Graduate School of Business Administration in the United States in June 1996.

Ms. LIM Kooi June, aged 46, is one of our non-executive Directors effective from December 2020. Ms. LIM has served as a director of investments of Khazanah Nasional Business Consulting (Shanghai) Co., Ltd. (馬投商務諮詢(上海)有限公司) since November 2019. Ms. LIM has also served as a board member of Shanghai Jinghua Medical Management Co., Ltd. (上海菁華醫療管理有限公司) (formerly known as Shanghai Lianji Biotechnology Co., Ltd. (上海連驥生物科技股份有限公司)) since September 2020. Ms. LIM also served as a director of investments of Khazanah Nasional Consulting (Beijing) Co., Ltd. (馬投諮詢(北京)有限公司) ("**Khazanah**") from January 2012 to October 2019 primarily responsible for carrying out investments made by Khazanah. Prior to that, Ms. LIM served at (i) Khazanah Nasional Berhad, Beijing Representative Office as a director of investment from April 2008 to December 2011, (ii) the Citi technology infrastructure department of Citibank, N.A. from April 2004 to May 2005, where her last position was a senior auditor, and (iii) Deloitte LLP from August 2002 to April 2004, where her last position was an assistant manager.

Ms. LIM received her bachelor's degree with honors in law from University of Nottingham in England in July 2000 and was awarded the Professional Accountancy Certificate by the Institute of Chartered Accountants in England and Wales in May 2002.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. MI Brian Zihou (宓子厚), aged 57, is one of our independent non-executive Directors effective from June 2023. Mr. MI has served as the president of Asia Pacific for IQVIA (NYSE: IQV) since April 2020, a company providing full spectrum of services, including information, technology and contract clinical research, to healthcare industry. He also held various positions at IQVIA, including the president for Greater China from December 2016 to April 2020, the president for China and Southeast Asia from April 2015 to December 2016, the general manager for Greater China from July 2011 to April 2015, and a senior principal for management consulting from December 2008 to July 2011.

Mr. MI received his Ph.D. degree in pharmaceutical chemistry from the Ohio State University in December 1995, and his MBA degree from University of Chicago Booth School of Business in June 2000.

Mr. YEH Richard (葉霖), aged 55, is one of our independent non-executive Directors effective from June 2023. Mr. YEH was previously a director and the chief operating officer at I-MAB, a clinical stage biopharmaceutical company traded on the NASDAQ (NASDAQ: IMAB), since April 2022. Before joining IMAB, he took leadership positions in certain biopharmaceutical companies, including serving as (i) a director of Medlive Technology Co., Ltd. (醫脈通科技有限公司) (HKEX: 2192) since June 2021; (ii) a director of Abbisko Cayman Limited (和譽開曼有限責任公司) (formerly known as Abbisko Therapeutics Co., Ltd. (上海和譽生物醫藥科技有限公司)) (“**Abbisko**”) (HKEX: 2256) from January 2021 until his resignation in April 2022, (iii) as chief financial officer and the head of strategic operations at Abbisko from November 2020 to April 2022, and (iv) the chief financial officer of CStone Pharmaceuticals, a company listed on the Stock Exchange (HKEX: 2616), from July 2018 to April 2020. Prior to joining CStone Pharmaceuticals, Mr. YEH was a managing director and the business unit leader of Asia Pacific healthcare equity research at Goldman Sachs (Asia) L.L.C. in Hong Kong from July 2015 to July 2018. Before that, Mr. YEH worked at Citigroup Capital Markets Asia Limited from July 2009 to June 2015 where he last served as the head of China healthcare research team. In October 1995, he joined Amgen Inc., a leading global biotechnology company traded on the NASDAQ (NASDAQ: AMGN), as a research associate conducting drug discovery research.

Mr. YEH received his master’s of business administration from Cornell University in the United States in May 2002 and a Master of Science in medical biophysics from the University of Toronto and Ontario Cancer Institute in Canada in November 1995. Mr. YEH received a Bachelor of Science with a major in biochemistry from University of Manitoba in Canada in May 1993.

Mr. ZHANG Wei (張煒), aged 52, is one of our independent non-executive Directors effective from June 2023. Mr. ZHANG has served as an independent non-executive director at various public companies, including (i) as an independent director of Biostage, Inc. (NASDAQ: BSTG), a U.S. biotechnology company developing bioengineered organ implants, from May 2018 to June 2021, (ii) an independent director of Dong-E-E-Jiao Co., Ltd. (東阿阿膠股份有限公司) (SZSE: 000423), a company primarily manufacturing and selling traditional Chinese medicine and healthcare products, from January 2015 to June 2021, (iii) an independent director of Yunan Jianzhijia Health-Chain Co., Ltd. (健之佳醫藥連鎖集團股份有限公司) (SHA: 605266) from March 2015 to December 2020, (iv) an independent director of Huadong Medicine Co., Ltd. (華東醫藥股份有限公司) (SZSE: 000963) from January 2016 to June 2019, and (v) an independent director of China Merchants Property Development Co., Ltd. (招商局地產控股股份有限公司) (SZSE: 000024) from December 2011 to December 2015, which was privatized in December 2015.

Mr. ZHANG has also served as the senior executive of China Merchants Health Care Holdings Company Limited (招商局健康產業控股有限公司) since September 2020 primarily responsible for its strategy and operation.

Mr. ZHANG received his doctoral degree in clinical medicine from Peking Union Medical College (北京協和醫科大學, currently known as 北京協和醫學院) in July 1998, and his doctoral degree in medical management and policy from Harvard University in June 2005.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. PAN Chao (潘超), aged 60, has served as our senior vice president since July 2021 and our head of laboratory since October 2018. He is responsible for the laboratory overall management of our Group. Mr. PAN also held various positions at Hangzhou, Adicon, including as a laboratory deputy general manager from March 2017 to October 2018, a laboratory director from January 2010 to March 2017, and a laboratory supervisor from October 2007 to January 2010.

Prior to joining our Group, he served as a laboratory director of People's Hospital of Jiangsu Gaoyou (江蘇高郵市人民醫院) ("Gaoyou Hospital") from November 1991 to July 2004, during which, he served as (i) a deputy director of its outpatient department from October 1998 to July 2004, and (ii) a technician responsible its medical laboratory technology from September 1989 to November 1991. From May 1982 to August 1989, he served as a technician of Hospital of Integrated Traditional Chinese and Western Medicine of Jiangsu Gaoyou (江蘇高郵市中西醫結合醫院).

Mr. PAN received (i) his technical degree in laboratory from Zhenjiang Medical College (鎮江醫學專科學校) (currently known as Jiangsu University (江蘇大學)) in March 1982, (ii) his college degree in medical laboratory from Jiangsu Staff Medical University (江蘇職工醫科大學) (currently known as Jiangsu Health Vocational College (江蘇衛生健康職業學院)) in January 1998 through part-time study, and (iii) his bachelor's degree in medical laboratory science from Jiangsu University (江蘇大學) (evening courses) in July 2003. Mr. PAN was appointed as (i) as the vice president of the Laboratory Branch of China Non-government Medical Institutions Association (中國非公立醫療機構協會檢驗醫學分會) in December 2023, (ii) a member of the Second Committee of Laboratory Medicine Branch of Zhejiang Medical Doctor Association (浙江省醫師協會檢驗醫師分會第二屆委員會委員) by Zhejiang Medical Doctor Association in April 2019, (iii) a member of the First Committee of Health Examination Branch of Chinese Non-Government Medical Institutions Association (中國非公立醫療機構協會健康體檢分會第一屆委員會委員) by Chinese Non-Government Medical Institutions Association in October 2019, and (iv) a member of the Third Committee of Clinical Laboratory Management of Zhejiang Hospital Association (浙江省醫院協會第三屆臨床檢驗管理專業委員會委員) by Zhejiang Hospital Association in December 2020. Mr. PAN received (i) the qualification of Deputy Chief Technician of clinical medical laboratory and clinical basic laboratory technology awarded by Zhejiang Provincial Department of Human Resources and Social Security in November 2010 and (ii) his Clinical Genetic Diagnosis Laboratory Certificate (臨床基因診斷實驗上崗證) awarded by Jiangsu Clinical Laboratory Center in March 2004.

Mr. WANG Lawrence Allen (王之翰), aged 47, has served as our chief financial officer and senior vice president since September 2020. Mr. WANG is also a joint company secretary of the Company since April 2021. He is responsible for the financial strategy, financial management and investor relation of our Group.

Prior to joining our Group, Mr. WANG worked in various capacities in private equity and investment banking, including as a managing director of Vivo Capital, LLC from November 2015 to August 2020, a managing director of Primavera Capital Limited from December 2010 to July 2015, an associate director of Macquarie Group Limited (ASX: MQG) from July 2009 to September 2010, an executive director of Goldman Sachs (Asia) L.L.C., a subsidiary of Goldman Sachs Group, Inc. (NYSE: GS) from March 2004 to May 2009, and an associate of Bank of America Corporation (NYSE: BAC) from August 2003 to March 2004.

Mr. WANG received his bachelor's degree in medical science from Boston University in the United States in May 1999, his doctorate degree in medicine from Boston University School of Medicine in the United States in May 2003, and his MBA degree from Massachusetts Institute of Technology Sloan School of Management in the United States in June 2003.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. CHU Jianing (褚佳寧), aged 43, has served concurrently as our internal audit director and strategic intelligence officer since July 2021. He is responsible for overseeing internal control and risk management and the management of operating data analysis and application of our Group. Mr. CHU has been in charge of our internal audit department since he joined our Group in June 2014, during which he has consecutively served as our internal audit manager, internal audit deputy director and internal audit director. From July 2020 to July 2021, he also served as our war room director.

Prior to joining our Group, Mr. CHU served as (i) an internal audit manager of Hi-P (Shanghai) Housing Appliance Co., Ltd (赫比(上海)家用電器產品有限公司), a subsidiary of Hi-P International Limited (赫比(國際)有限公司) (SGX: H17) from January 2010 to May 2014, and (ii) a risk management deputy manager of Shanghai Lotus Supermarket Chain Store Co., Ltd. (上海易初蓮花連鎖超市有限公司) from December 2002 to December 2009.

Mr. CHU received his bachelor's degree in finance from Shanghai University (上海大學) in China in July 2002. Mr. CHU was accredited as a certified internal auditor by China Institute of Internal Audit in November 2009.

Mr. GE Shun (葛順), aged 49, has served as our vice president and chief marketing officer since February 2023. He is responsible for the management of marketing, esoteric tests and consumers relationship of our Group. From August 2021 to January 2023, Mr. GE worked as the director of marketing in our Group.

Prior to joining our Group, Mr. GE was (i) a resident doctor in Wuxi People's Hospital (無錫市人民醫院) (formerly known as Wuxi Fifth Hospital (無錫五院)) from June 1998 to October 2000; (ii) a pharmaceutical representative, a district manager, a regional manager, the product manager and the marketing manager in Xi'an Janssen Pharmaceutical Limited (西安楊森製藥有限公司) from November 2000 to December 2011; (iii) the national director of sales in AbbVie Pharmaceutical Trading (Shanghai) Co., Ltd. (艾伯維醫藥貿易(上海)有限公司) from January 2012 to October 2013; (iv) the director of marketing in Menarini China Holding Co., Ltd. (美納裏尼(中國)投資有限公司) from October 2013 to December 2019; and (v) the general manager of business unit in Jiangsu Ehwa Pharmaceutical Company Limited (江蘇恩華製藥有限公司) from January 2020 to August 2021.

Mr. GE received his bachelor's degree in clinical medicine from Jiangsu University (江蘇大學) (formerly known as Zhenjiang Medical College (鎮江醫學院)) in China in June 1998, and his master's degree in business administration from Fudan University (復旦大學) in China in May 2019.

Ms. HU Yuanyuan (胡元媛), aged 39, has served as vice president since October 2018 and currently responsible for overseeing our EHS (environment, health and safety) governance system. Ms. HU has been in charge of overseeing many of our internal administrative functions, including, among others, our (i) human resources department, (ii) business administrative department, (iii) engineering project department, and (iv) legal department.

Prior to joining our Group, Ms. HU served as (i) an administrative director of AJON Medical Device (Hangzhou) Co., Ltd. (艾健醫療器械(杭州)有限公司) ("**AJON**") from July 2012 to October 2014, (ii) a director of the general manager office of AJON from November 2010 to June 2012, (iii) an assistant to general manager of AJON from November 2008 to November 2010, (iv) a personal assistant to the general manager of Junglerock Biological Cloning Technology (Hangzhou) Co., Ltd. (叢林石生物克隆技術(杭州)有限公司) from November 2007 to November 2008 and (v) a translator for Mahindra (China) Tractor Co., Ltd. (馬恒達(中國)拖拉機有限公司) from March 2007 to October 2007.

Ms. HU received her bachelor's degree in international economics and trade from Jiangxi University of Finance and Economics (江西財經大學) in China in July 2006.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Ms. LAN Jia (蘭佳), aged 53, has served as our senior vice president and chief administrative officer since January 2021 and concurrently served as our chief compliance officer since October 2018. She is responsible for overseeing the overall management and enforcement of the internal control of our Group.

Prior to joining our Group, she worked Meinian Onehealth Healthcare Holdings Co., Ltd. (美年大健康產業控股股份有限公司) (“**Meinian Onehealth**”), a company listed on the Shenzhen Stock Exchange (stock code: 002044), where Ms. LAN was the vice president from March 2017 to October 2018 following a term as chief financial officer from October 2015 to March 2017. From April 2009 to January 2013, Ms. LAN was the person-in-charge of internal audit in Zhejiang Jingxing Paper Joint Stock Co., Ltd. (浙江景興紙業股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002067). From May 2002 to June 2008, Ms. LAN served as the audit manager in Ernst & Young. From November 1996 to April 2002, she worked as a senior auditor in Dahua Certified Public Accountants Co., Ltd. (大華會計師事務所有限責任公司).

Ms. LAN received her bachelor’s degree in accounting from Shanghai University of Finance and Economics (上海財經大學) in China in July 1991, and her master’s degree in business administration from National University of Singapore in June 2020. Ms. LAN obtained the qualification of a certified public accountant issued by the Ministry of Finance of the PRC in 2001.

Ms. LI Dan (李單), aged 45, has served as our national quality director since April 2019. She is responsible for the laboratory quality control of our Group. Ms. LI also held various positions at Hangzhou Adicon, including as a national quality deputy director from November 2016 to April 2019, a national quality manager from June 2013 to November 2016, a laboratory manager from May 2008 to June 2013 and a laboratory supervisor from March 2006 to May 2008.

Prior to joining our Group, she served in technical support for the international sales department of ACON Biotech from July 2002 to May 2003.

Ms. LI received her bachelor’s degree in clinical medicine from Qiqihar Medical University (齊齊哈爾醫學院) in China in July 2002.

Mr. LUO Zhen (羅震), age 49, has served as our vice president since March 2023. He is responsible for the digital system construction of our Group.

Prior to joining our Group, Mr. LUO was (i) the vice president of technology in China in Dextrys, Inc. as well as the general manager of its subsidiary, Shanghai Yipan software Co., Ltd. (上海億磐軟件有限公司); (ii) the deputy general manager of the information center (C-level) in Wanda Group (萬達集團); (iii) the assistant president in Huaxia Xingfu Creative Investment Co., Ltd (華夏幸福創業投資有限公司); and (iv) the vice president in Redsun Group (弘陽集團).

Mr. LUO received his bachelor’s degree in applied physics from the University of Electronic Science and Technology (電子科技大學) in China in June 1996, his master’s degree in computer and computer applications from Chengdu University of Technology (成都理工大學) in China in June 2002, and his doctoral degree in computer and computer application from Sichuan University (四川大學) in China in June 2011.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. SUN Guangtao (孫廣濤), aged 50, has served as our senior vice president and the chief operating officer since April 2022. He is responsible for the operational management of our Group. Mr. SUN also holds or held various positions in our Group, including (i) the northern district general manager from December 2019 to April 2022; (ii) the general manager in Beijing Adicon from July 2019 to September 2020; (iii) the general manager in Tianjin Adicon since February 2015; and (iv) head of Tianjin district in Beijing Adicon from July 2008 to February 2015.

Prior to joining our Group, Mr. SUN was (i) a project manager in Tianjin Saien Investment Group Co., Ltd. (天津賽恩投資集團有限公司), as well as the person-in-charge of Tianjin New Class Medical Laboratory Company Limited (天津新階層醫學檢驗所有限公司) from June 2005 to June 2008; (ii) a project manager in Tianjin Ark Tianma Investment Group Company Limited (天津方舟天馬投資集團有限公司) from March 2003 to June 2005; and (iii) an exporter in Ceroilfood Tianjin Cereals & Oils Import & Export Co., Ltd. (天津金糧進出口有限公司) (formerly known as COFCO Tianjin Grain and Oil Import and Export Co., Ltd. (中糧天津糧油進出口有限公司)) from July 1996 to March 2003.

Mr. SUN received his bachelor's degree in foreign trade from Nankai University (南開大學) in China in June 1996.

Mr. WANG Chengdong (王成棟), aged 47, has served as our vice president and eastern district general manager since January 2022. Mr. WANG also held various positions at Hangzhou Adicon, including as (i) a national purchasing manager from July 2011 to March 2013, (ii) a national purchasing, planning and warehousing senior manager from March 2013 to January 2018, (iii) a national purchasing, planning and warehousing deputy director from January 2018 to April 2019, and (iv) a national purchasing, planning and warehousing director, national technical cooperation and project manager from April 2019 to December 2019.

Mr. ZHANG Yu (張羽), age 42, has served as our vice president of finance since July 2021. He is responsible for financial operations of our Group. Mr. ZHANG also held various positions in Hangzhou Adicon, including (i) the in-charge accountant from January 2007 to January 2008; (ii) the financial executive from January 2008 to September 2010; (iii) the financial manager from September 2010 to September 2013; and (iv) the director of finance from September 2013 to July 2021.

Prior to joining our Group, Mr. ZHANG was (i) an internal control specialist in Swire Coca-Cola Beverages Zhejiang Limited (浙江太古可口可樂飲料有限公司) from March 2006 to January 2007; and (ii) an audit specialist in Zhejiang Zhongzhou Certified Public Accountants Co., Ltd. (浙江中州會計師事務所有限公司) from July 2004 to March 2006.

Mr. ZHANG received his bachelor's degree in accounting from Taiyuan University of Technology (太原理工大學) in China in July 2004. Mr. ZHANG is a non-practicing member of the Chinese Institute of Certified Public Accountants.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

JOINT COMPANY SECRETARIES

Mr. WANG Lawrence Allen (王之翰) is one of our joint company secretaries and has been appointed with effect from April 15, 2021. Mr. WANG is also one of our authorized representatives. For details of his biography, see the paragraph headed “— Senior Management” in this section.

Ms. SO Ka Man (蘇嘉敏) is one of our joint company secretaries and has been appointed with effect from November 5, 2021.

Ms. SO is a director of the corporate services division of Tricor Services Limited and has been providing professional corporate services to Hong Kong listed companies as well as multi-national, private and offshore companies. Ms. SO has over 20 years of experience in the corporate secretarial and compliance service field. Ms. SO is currently acting as the company secretary or joint company secretary of a few listed companies on the Stock Exchange.

Ms. SO graduated from The Hong Kong Polytechnic University in November 1996 with a bachelor's degree of Arts in Accountancy. Ms. SO is a Chartered Secretary, a Chartered Governance Professional and a fellow of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom.

Ms. SO's primary contact at the Company is Mr. WANG.

DIRECTORS' REPORT

The Board is pleased to present this Directors' report in the Group's annual report for the period from the Listing Date to December 31, 2023.

GLOBAL OFFERING AND 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 (RMB in millions)	Utilized amount as of December 31, 2023	Unutilized amount as of December 31, 2023	Expected timeline for utilizing for the unutilized net proceeds
			(RMB in millions)	(RMB in millions)	
Strengthening our routine and esoteric testing capabilities	15.0%	34.6	19.6	15.0	December 31, 2024
Network expansion through establishing new laboratories, partnership investments and development of new channels	25.0%	57.7	13.4	44.3	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	43.4	December 31, 2024
Upgrade and expansion of our existing laboratories	15.0%	34.6	13.1	21.5	December 31, 2024
Investment in operating infrastructure including logistics facilities, artificial intelligence technologies and IT infrastructure	10.0%	23.1	10.8	12.3	December 31, 2024
Working capital and general corporate purpose	10.0%	23.1	7.4	15.7	December 31, 2024
Total	100.0%	230.9	78.6	152.3	

The unutilized net proceeds are placed in licensed banks and/or authorized financial institutions as of the date of this annual report.

DIRECTORS' REPORT

BUSINESS AND COMPANY-RELATED INFORMATION

Principal Activities

We are one of the leading independent clinical laboratory, or 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 36 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 were accredited by ISO15189, which enabled 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.

The activities of the principal subsidiaries are set out in note 1 to the Financial Statement in this annual report.

Results of Operations

The results of the Group for the year ended December 31, 2023 are set out in "Consolidated Statements of Profit or Loss" and "Consolidated Statements of Comprehensive Income/(Loss)" of this annual report.

Final Dividend

The Board did not recommend the payment of any final dividend for the year ended December 31, 2023.

Business Review

Details of business review and performance analysis of the Group for the year ended December 31, 2023 are set out in "Chairwoman's Statement" and "Management Discussion and Analysis" of this annual report.

Future Development

Details of future development of the Group are set out in "Chairwoman's Statement" of this annual report.

Environmental Policies and Performance

The Group is committed to being environmentally responsible. The Group takes steps to ensure that wastes generated as a result of its operations are properly disposed of in order to reduce adverse effects to the environment. In addition, the Group strives to operate its facilities in a manner that protects the environment and the health and safety of its employees and communities. Details of the Group's environmental policies and performance will be published in a separate and comprehensive ESG Report for the year ended December 31, 2023 at the same time as the publication of this report. The ESG Report has addressed the requirements set out in Appendix C2 of the Listing Rules, and is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.adicon.com.cn).

DIRECTORS' REPORT

Key Relationships with Stakeholders

Relationship with Employees

The Company embraces employees as the most valuable assets of the Group. The objective of the Group's human resources management is to reward and recognize outstanding employees by providing competitive remuneration packages and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression within the Group by providing adequate training and opportunities.

Relationship with Shareholders

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable the Shareholders and investors to make the best investment decisions.

The general meetings of the Company provide an opportunity for communication between the Directors, senior management and the Shareholders. The chairwoman of the Board as well as chairpersons of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Strategy Committee, in their absence, other members of the respective committees, are available to answer questions at general meetings. The chairman of the meeting will provide the detailed procedures for conducting a poll and answer any questions from the Shareholders on voting by poll. The annual general meeting shall be called by not less than 21 days' notice to Shareholders in writing and any extraordinary general meeting shall be called by not less than 14 days' notice to Shareholders in writing.

The Company has adopted the Shareholders' communication policy, which sets out the framework the Company has put in place to promote effective communication with Shareholders so as to enable them to engage actively with the Company and exercise their rights as Shareholders in an informed manner. To promote effective communication, the Company has established several channels to communicate with the Shareholders as follows, among others:

- (i) both English and Chinese versions of corporate communications (as defined in the Listing Rules) such as annual reports, interim reports and circulars are available in printed form (if requested) and are available electronic form on the Stock Exchange's website (www.hkexnews.hk) and the Company's website at (www.adicon.com.cn), where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access;
- (ii) corporate information is made available on the Company's website; and
- (iii) the Hong Kong branch share registrar of the Company serves the Shareholders in respect of share registration, dividend payment and related matter.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available and the Company has an investor relationship function (Email: ir@adicon.com.cn, Tel: (86) 0571 8777 5775) to attend to enquiries from the Shareholders.

Having considered the multiple channels of communication, the Board is satisfied that the Shareholders' communication policy provided effective channels by which Shareholders can communicate and raise concern with the Company.

DIRECTORS' REPORT

To preserve environment and increase efficiency in communication with the Shareholders, the Company made arrangement pursuant to Rule 2.07A of the Listing Rules and the Articles of Association for the Shareholders to elect to receive corporate communication in printed form or by electronic means through the Company's website. Shareholders have the right to change their choice of receipt of its corporate communications (as defined in the Listing Rules) at any time by giving reasonable notice to the Company. The change request form may be downloaded from the websites of the Company and the Stock Exchange. The Company will send the actionable corporate communication (as defined in the Listing Rules) to the Shareholders individually in electronic form by email or in printed form (if requested or if the Company does not possess the functional email address of Shareholders).

Relationship with Customers and Suppliers

The Group's major customers primarily include medical institutions (which include public hospitals, community health centers, private hospitals and clinics, and health check centers), pharmaceutical companies and CROs. The Group's top five customers accounted for less than 8% of the Group's total revenues for the year ended December 31, 2023.

The Group's major suppliers primarily consist of suppliers for equipment, reagent and other consumable material for testing. The Group's top five suppliers accounted for less than 30% of the Group's purchasers for the year ended December 31, 2023.

The ESG Report also contains information in respect of relationship with the employees, customers and suppliers, which will be published at the same time as the publication of this report as required under the Listing Rules.

Share Capital

Details of the issued Shares of the Group for the year ended December 31, 2023 are set out in note 30 to the Financial Statements in this annual report.

Reserves

Details of movements in the reserves of the Company for the year ended December 31, 2023 are set out in "Consolidated Statement of Changes in Equity" of this annual report.

Distributable Reserves

As of December 31, 2023, the Group has distributable reserves of RMB1,315.2 million in total available for distribution.

Charitable Donations

During the period from the Listing Date to December 31, 2023, the Group made charitable donations of RMB1.8 million.

DIRECTORS' REPORT

Bank Loans and Other Borrowings

As of December 31, 2023, the Group recorded bank loans and other borrowings amounted to RMB887.5 million.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year ended December 31, 2023 are set out in note 15 to the Financial Statements in this annual report.

Sufficiency of Public Float

Based on information that is publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued shares, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, was held by the public since the Listing Date and up to the date of this annual report.

Issue of Debentures

The Group did not issue any debentures during the period from the Listing Date to December 31, 2023.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands that would oblige the Company to offer new shares on a *pro rata* basis to the existing Shareholders.

Tax Relief

The Directors are not aware of any tax relief available to the Shareholders by reason of their holding of the Company's securities.

Compliance with Relevant Laws and Regulations

The Group may from time to time become a party to various legal, arbitral or administrative proceedings arising in the ordinary course of its business. During the period from the Listing Date to December 31, 2023, the Group had not been a party to, and was not aware of any threat of, any legal, arbitral or administrative proceedings, which would likely to have a material and adverse effect on its business, financial conditions or results of operations.

The Group is subject to applicable laws and regulations that have a significant impact on the operations of the Group, including in the PRC. During the period from the Listing Date to December 31, 2023, the Group had not been and were not involved in any non-compliance incidents that led to fines, enforcement action or other penalties that could, individually or in the aggregate, have a material adverse effect on the Group's business, financial condition or results of operations, and the Group had been in compliance with applicable laws and regulations in all material respects.

DIRECTORS' REPORT

Principal Risk and Uncertainties

The Directors are aware that the Group's financial condition, results of operations, businesses and prospects may be affected by a number of risks and uncertainties. The key risks and uncertainties identified by the Group are set out as follows:

- (i) the Group's operations face competition that could adversely affect the results of operations. If the Group cannot compete successfully with its competitors, it may be unable to increase or sustain its revenues or achieve and sustain profitability;
- (ii) the Group conducts its business in a heavily regulated industry. It may be adversely affected by the uncertainties and changes in PRC regulations with respect to the ICL industry;
- (iii) if the Group fails to comply with applicable licensing requirements, or becomes damaged or inoperable, its ability to perform tests may be jeopardized;
- (iv) any adverse change in the regulatory regime relating to the ICL industry or the healthcare industry may limit the Group's ability to provide testing services and may have a material adverse effect on its business, results of operations and financial condition;
- (v) failure in service quality control may adversely affect the Group's operating results, reputation and business;
- (vi) failure to obtain and retain new customers, the loss of existing customers, or a reduction in tests requested or specimens submitted by existing customers could impact the Group's ability to successfully grow its business;
- (vii) the Group's past financial performance may not be indicative of the Group's future results;
- (viii) if the Group fails to keep up with industry and technology developments or implement new technologies into its test offerings in a timely and cost-effective manner, the Group may be unable to compete effectively and its business and prospects could suffer; and
- (ix) certain of the leased properties of the Group are subject to land defects, and it maybe required to vacate such properties which could adversely affect its business, financial condition and results of operations.

For details of the nature and extent of the principal risks faced by the Group, see "Risk Factors" of the Prospectus.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the period from the Listing Date to December 31, 2023.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any member of the Group purchased, redeemed or sold any of the Company's listed securities from the Listing Date to December 31, 2023.

DIRECTORS' REPORT

Auditor

Ernst & Young was appointed as the Auditor during the period from the Listing Date to December 31, 2023 and there had been no change in auditor of the Company in the past three years. The accompanying Financial Statements prepared in accordance with IFRS have been audited by Ernst & Young.

Ernst & Young will retire and, being eligible, offer themselves for re-appointment. A resolution for their re-appointment as auditor of the Company will be proposed at the AGM.

Audit Committee and Review of Financial Statements

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.

Scope of Auditor's Work

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended December 31, 2023 as set out in this report have been agreed by the Company's auditors, Ernst & Young, to the amounts set out in the Group's audited consolidated financial statements for the year. 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 report.

Closure of Register of Members for the Annual General Meeting

The Company's register of members will be closed from Monday, May 27, 2024 to Thursday, May 30, 2024, both days inclusive, in order to determine the eligibility of the Shareholders to attend and vote at the Annual General Meeting. During this period, no transfer of Shares will be registered. In order to be eligible to attend and vote at the Annual General Meeting, all properly completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration no later than 4:30 p.m. on Friday, May 24, 2024.

DIRECTORS AND SENIOR MANAGEMENT

From the Listing Date to the date of this annual report, the Board composition is set out below. To the best knowledge of the Company, there are no financial, business, family, or other material/relevant relationships among members of the Board.

Executive Director

Mr. GAO Song (Chief Executive Officer)

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

DIRECTORS' REPORT

Directors' and Senior Management's Biographies

Biographical details of the Directors and the senior management of the Group are set out in "Profiles of Directors and Senior Management" of this annual report.

Changes in the Information of the Directors

From the Listing Date to the date of this annual report, there has been no change in the information of the Directors as required to be disclosed pursuant to Rule 13.51B of the Listing Rules.

Directors' Service Contracts and Appointment Letters

The executive Director, Mr. GAO Song, entered into a service contract with the Company. His term of appointment was until (i) three years after the Listing Date, or (ii) the third annual general meeting of the Company since the Listing Date, whichever is earlier (subject to retirement as and when required under the Articles of Association). Either party may terminate the appointment by giving not less than six month's written notice.

Each of the non-executive Directors entered into an appointment letter with the Company. Their term of appointment shall be for an initial term of three years from the Listing Date or until the third annual general meeting of the Company after the Listing Date, whichever is sooner (subject to retirement as and when required under the Articles of Association). Either party may terminate the agreement by giving not less than three month's written notice.

Each of the independent non-executive Directors entered into an appointment letter with the Company. Their term of appointment shall be for an initial term of three years from the date indicated in their respective appointment letter, respectively, or until the third annual general meeting of the Company after the Listing Date, whichever is sooner (subject to retirement as and when required under the Articles of Association). Either party may terminate the agreement by giving not less than three months' written notice.

None of the Directors have an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

Confirmation of Independence from the Independent Non-Executive Directors

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent from the date of their appointments to December 31, 2023 and remain so as of the date of this annual report.

Re-election of Directors

In accordance with Article 108 of the Articles of Association, at each annual general meeting one-third of the Directors for the time being shall retire from office by rotation. Ms. YANG Ling, Mr. LIN Jixun and Ms. LIM Kooi June will retire from office at the AGM by rotation. Ms. YANG Ling and Mr. LIN Jixun, being eligible, have offered themselves for re-election at the AGM. Ms. LIM Kooi June has informed the Board that she will not offer herself for re-election at the AGM as she wishes to devote more time for her other business commitments. Her retirement shall take effect upon the conclusion of the AGM. Ms. LIM Kooi June has confirmed that she has no disagreement with the Board and there is no matter that needs to be brought to the attention of the Shareholders relating to her decision of not offering herself for re-election at the AGM.

To fill the vacancy due to Ms. LIM Kooi June's retirement. The Board is pleased to announce that Mr. ZHOU Mintao has been nominated as a candidate for non-executive Director. The appointment of Mr. ZHOU as a non-executive Director will be submitted to the Shareholders at the AGM for consideration and approval.

DIRECTORS' REPORT

Biographical details of Mr. ZHOU are set out as follows:

Mr. ZHOU Mintao, aged 54. Prior to joining the Company, Mr. ZHOU had already developed significant expertise and leadership and a distinguished reputation in the fields of healthcare and business management. Starting as a young technician in Shanghai in the 1990s, he began his career by supervising pharmaceutical manufacturing processes. Since then, his professional life has spanned a variety of industries, ranging from fast-moving consumer goods and consumer devices to medical devices and biotechnology. For almost three decades at Johnson & Johnson, Mr. ZHOU led teams in its subsidiaries including Beijing Dabao Cosmetics Company (北京大寶化妝品有限公司) and Ethicon Inc., navigating various challenges and transitions whilst generating and maintaining high business growth.

In 2022, Mr. ZHOU joined Cytiva (a Danaher Corporation company, which is listed on the New York Stock Exchange (ticker symbol: DHR)), a global provider of life sciences technologies and services, as its president in China. He led the business through its separation from GE HealthCare Technologies, Inc. and afterwards its integration with Pall Corporation.

Mr. ZHOU holds a bachelor's degree in biochemistry and a master's degree in business administration from Fudan University (復旦大學) in China.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at the date of this annual report, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name	Nature of interest	Number of Shares	% of interest in the Company ⁽¹⁾
Mr. GAO Song ⁽¹⁾	Interest in a controlled corporation	303,750	0.04%
	Beneficial interest	11,249,646	1.55%
Mr. LIN Jixun ⁽²⁾	Interest in a controlled corporation	90,061,994	12.38%

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 2019 Incentive Plans entitling him to receive up to an aggregate of 11,249,646 Shares.
- (2) Details of the nature of interest held by Mr. LIN Jixun are provided in the note (4) to "— Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares" in this section.

Save as disclosed above, as at the date of this annual report, none of the Directors or chief executives of the Company has or is deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO); or which will be required to be recorded in the register to be kept by the Company pursuant to Section 352 of the SFO, or which will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' REPORT

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at the date of this annual report, the followings are the persons who had interests or short positions in the Shares and underlying Shares which would be required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO; or as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Name of	Capacity/Nature of Interest	Number of Shares	Ownership % of interest in the Company
Pearl Group Limited ⁽¹⁾	Beneficial owner	281,541,805	38.71%
Mr. LIN Jixun ⁽²⁾	Interest in a controlled corporation	90,061,994	12.38%
Corelink ⁽²⁾	Beneficial owner	90,061,994	12.38%
Mr. LIN Feng ⁽³⁾	Interest in a controlled corporation	72,005,994	9.90%
Mega Stream ⁽³⁾	Beneficial owner	72,005,994	9.90%

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 the founders of the Group and a non-executive Director. Mr. LIN Jixun is the brother of Mr. LIN Feng.
- (3) Mega Stream is wholly-owned by Mr. LIN Feng, one of the founders of the Group. Mr. LIN Feng is the brother of Mr. LIN Jixun.

Save as disclosed above, to the best knowledge of the Directors and the chief executives of the Company, as at the date of this annual report, the Company is not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which would be required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO; or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in "—2019 Incentive Plans" of this annual report, at no time during the period from the Listing Date to December 31, 2023 was the Company or any of its subsidiaries, a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of the shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

DIRECTORS' REPORT

Directors' Interests in Competing Business

During the period from the Listing Date to December 31, 2023, none of the Directors had any interest in a business, apart from the business of the Group, which competes or is likely to compete, directly or indirectly, with the Group's business, which would require disclosure under Rule 8.10 of the Listing Rules.

Directors' Material Interests in Transactions, Arrangements or Contracts of Significance

Save as disclosed in "— Continuing Connected Transactions" of this Directors' report, there were no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or its connected entity (within the meaning of Section 486 of the Companies Ordinance) had a material interest, whether directly or indirectly, and subsisting during the period from the Listing Date to December 31, 2023 or as of December 31, 2023.

Directors' Remuneration

The remuneration of the Directors is paid in the form of salaries, allowances and benefits in kind, equity-settled share-based payment expense and pension scheme contributions with reference to his or her duties, responsibilities within the Group. The Company has established the Remuneration Committee to review and make recommendations to the Board regarding the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management.

The Directors and the senior management members are eligible participants of the 2019 Incentive Plans and 2024 Incentive Plans.

During the period from Listing Date to December 31, 2023, none of the Directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors or five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for the loss of office.

Details of the emoluments of the Directors, and five highest paid individuals for the year ended December 31, 2023 are set out in notes 10 and 11 to the Financial Statements in this annual report.

Retirement and Employee Benefits Scheme

Details of the retirement and employee benefits scheme of the Company are set out in note 2.4 to the Financial Statements in this annual report.

Directors and Officers Liability Insurance

The Company has arranged appropriate directors' and officers' liability insurance in respect of legal action against the Directors and senior management.

DIRECTORS' REPORT

Directors' Permitted Indemnity Provision

Pursuant to Article 194 of the Articles of Association and subject to Cayman Companies Law, every Director, company secretary, assistant secretary, or other officer (but not including the Company's auditors) and the personal representatives of the same (each an "**Indemnified Person**") shall be indemnified and secured harmless out of the assets and funds of the Company against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained by such Indemnified Person, other than by reason of such Indemnified Person's own dishonesty, wilful default or fraud as determined by a court of competent jurisdiction, in or about the conduct of the Company's business or affairs (including as a result of any mistake of judgment) or in the execution or discharge of his duties, powers, authorities or discretions, including without prejudice to the generality of the foregoing, any costs, expenses, losses or liabilities incurred by such Indemnified Person in defending (whether successfully or otherwise) any civil proceedings concerning the Company or its affairs in any court whether in the Cayman Islands or elsewhere.

CONTINUING CONNECTED TRANSACTIONS

Upon Listing, transactions between members of the Group and the Company's connected person have become connected transactions under Chapter 14A of the Listing Rules.

Among the related party transactions disclosed in note 35 to the Financial Statements, the transactions with ACON Biotech constituted the continuing connected transaction of the Group, and is required to be disclosed in this annual report in accordance with Rule 14A.71 of the Listing Rules. ACON Biotech is currently indirectly owned as to 50% by Mr. LIN Jixun (the Group's founder and one of the non-executive Directors), and is therefore a connected person of the Company under Rule 14A.07(4) of the Listing Rules. The Company confirmed that the other related party transactions as disclosed in note 35 to the Financial Statements do not fall under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) in Chapter 14A of the Listing Rules.

Purchase and Equipment Lease Framework Agreement

On January 10, 2022, the Company and ACON Biotech entered into a purchase and equipment lease framework agreement (the "**Purchase and Equipment Lease Framework Agreement**"), pursuant to which the Company agreed to purchase certain testing equipment and reagents from, and to lease certain testing equipment from, ACON Biotech from time to time in the Company's ordinary course of business.

The Purchase and Equipment Lease Framework Agreement is for a term commencing on the Listing Date until December 31, 2025, and will be renewed for another three years upon expiration, conditional upon the fulfillment of requirements under the Listing Rules and other applicable laws and regulations. The amounts payable by the Company under the Purchase and Equipment Lease Framework Agreement will be determined after a bidding process involving ACON Biotech and other approved qualified suppliers. After a successful bid of ACON Biotech, the Company and ACON Biotech enter into a separate agreement on terms which will be determined on an arm's length basis, with reference to, among others, (i) the historical transaction amounts for the similar testing equipment and reagents from ACON Biotech, (ii) the amount, quality and specifications of the relevant testing equipment and reagents, and (iii) the bidding price, product quality, reliability and specifications, product delivery time and range of offerings of ACON Biotech.

The annual cap of the Purchase and Equipment Lease Framework Agreement for the year ended December 31, 2023 is approximately RMB110.0 million, while the actual transaction amount for the year ended December 31, 2023 was approximately RMB25.4 million.

DIRECTORS' REPORT

Annual Review by the Independent Non-executive Directors and the Auditor

The independent non-executive Directors have confirmed that the above continuing connected transaction was entered into by the Group: (i) in the ordinary and usual course of its business; (ii) on normal commercial terms or better; and (iii) in accordance with the relevant agreements (including the pricing principle and guidelines set out therein) and on terms that was fair and reasonable and in the interests of the Company and the Shareholders as a whole.

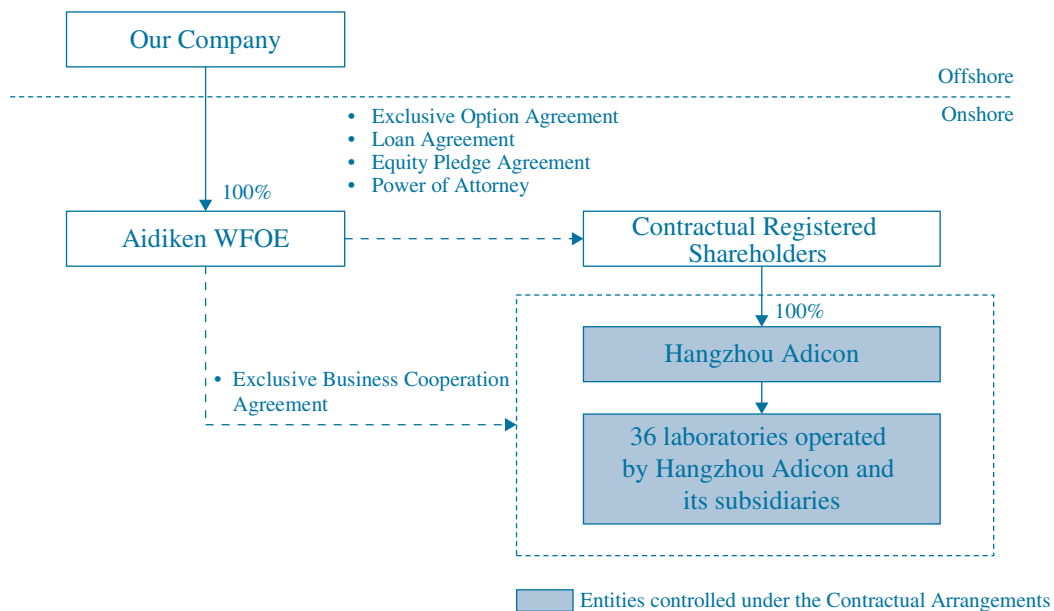
The Auditor has reviewed the continuing connected transaction referred to above and confirmed to the Board that such continuing connected transaction: (i) has received the approval of the Board; (ii) was in accordance with the pricing policies of the Group; (iii) was entered into in accordance with the relevant agreements governing the transactions; and (iv) has not exceeded the relevant annual caps.

Save as disclosed in this annual report, during the period from the Listing Date to December 31, 2023, the Company had no connected transactions or continuing connected transactions which are required to be disclosed under the Listing Rules. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions entered into by the Group during the period from the Listing Date to December 31, 2023.

CONTRACTUAL ARRANGEMENTS

Summary of the Contractual Arrangements

The following simplified diagram illustrates the existing structure of the Contractual Arrangements:



Note:

- (1) Mr. LIN Jixun and Mr. LIN Feng, through their respective holding company, were the registered shareholders of Hangzhou Adicon prior to October 2018. After the investment of Pearl Group Limited in October 2018, Ms. LAN Jia and Ms. LIAN Hailun were designated by the pre-IPO investors of the Company to become the Contractual Registered Shareholders of Hangzhou Adicon in October 2018. Ms. LAN Jia is the chief compliance officer of the Group and is the general manager and legal representative of Hangzhou Adicon. Ms. LIAN Hailun is a principal of Carlyle's Asia Buyout Fund and is a supervisor of Hangzhou Adicon and Aidiken WFOE. On October 14, 2020, Hangzhou Kangming, on behalf of certain PRC senior management of the Company (namely Mr. GAO Song, Mr. PAN Chao, Mr. WANG Chengdong and four other existing and previous senior employees who are neither the Directors nor the senior management), subscribed 0.36% equity interests in Hangzhou Adicon. Since then, Hangzhou Adicon has been owned as to 49.82%, 49.82% and 0.36% by Ms. LAN Jia, Ms. LIAN, Hailun and Hangzhou Kangming, respectively.

DIRECTORS' REPORT

A brief description of each of the specific agreements that comprise the Contractual Arrangements is set out as follows:

Exclusive Business Cooperation Agreement

Under the amended and restated exclusive business cooperation agreement dated November 23, 2020 (the "**Exclusive Business Cooperation Agreement**") entered into among Aidiken WFOE, Hangzhou Adicon and the Contractual Registered Shareholders, Hangzhou Adicon agreed to engage Aidiken WFOE as its exclusive provider of comprehensive business support, technical services and consultancy services, in exchange for service fees. Under this agreement, the yearly service fees shall be all the after-tax profit of Hangzhou Adicon (including all the distributable profit obtained by Hangzhou Adicon from its subsidiaries) in the financial year, but Aidiken WFOE is entitled to adjust the service fees at its sole discretion based on the quantity and content of the services provided.

Pursuant to the Exclusive Business Cooperation Agreement, Aidiken WFOE has the exclusive and complete proprietary rights to all intellectual properties developed in performance of obligations under the Exclusive Business Cooperation Agreement, whether developed by Hangzhou Adicon or its subsidiaries, Aidiken WFOE, or jointly.

The Exclusive Business Cooperation Agreement shall remain effective until Aidiken WFOE exercises its unilateral right to terminate by prior written notice to other parties. Subject to applicable laws and unless stated otherwise in the agreement, Hangzhou Adicon does not have the right to unilaterally terminate the contract.

Exclusive Option Agreement

Under the amended and restated exclusive option agreement dated November 23, 2020 (the "**Exclusive Option Agreement**") entered into among Aidiken WFOE, Hangzhou Adicon and the Contractual Registered Shareholders, Aidiken WFOE (or its designee) was granted an irrevocable, unconditional and exclusive right to purchase all or any of the equity interest in and/or assets of Hangzhou Adicon held at present or in the future for a consideration equivalent to the lowest price permitted under PRC laws at the time of purchasing. At Aidiken WFOE's request, the Contractual Registered Shareholders and/or Hangzhou Adicon will promptly and unconditionally transfer their respective equity interests in and/or the relevant assets of Hangzhou Adicon to Aidiken WFOE (or its designee) after Aidiken WFOE exercises its purchase right. Subject to relevant PRC laws and regulations, the Contractual Registered Shareholders shall compensate Aidiken WFOE with an amount equivalent to any purchase price, or profits, distributions, dividends or bonus received from Hangzhou Adicon. The Contractual Registered Shareholders (as registered shareholders of Hangzhou Adicon) have covenanted to Aidiken WFOE that they shall not, among other things: (i) sell or transfer the equity interests of Hangzhou Adicon, or allow such equity interests be subject to a guarantee or other forms of encumbrances; (ii) approve any distribution of dividends to the Contractual Registered Shareholders, unless with the prior consent of Aidiken WFOE; and (iii) enter into any arrangements to reduce the value of the equity interests of Hangzhou Adicon. Hence, the potential adverse effect on Aidiken WFOE and the Company in the event of any loss suffered from Hangzhou Adicon and/or its subsidiaries can be limited to a certain extent.

If Aidiken WFOE exercises its purchase right, all or any part of the equity interests in and/or assets of Hangzhou Adicon acquired shall be transferred to Aidiken WFOE and the benefits of equity ownership and/or assets, as applicable, will flow to the Company and Shareholders.

DIRECTORS' REPORT

The Exclusive Option Agreement will remain effective until (i) all equity interests in and/or assets of Hangzhou Adicon are transferred to Aidiken WFOE (and/or its designee) pursuant to the terms of the agreement; or (ii) Aidiken WFOE exercises its unilateral right to terminate the Exclusive Option Agreement by prior written notice to other parties. Subject to applicable laws and unless stated otherwise in the agreement, Hangzhou Adicon and the Contractual Registered Shareholders do not have the right to unilaterally terminate the contract.

Loan Agreements

Under the amended and restated loan agreements dated November 23, 2020 (the "**Loan Agreements**") entered into respectively by Ms. LAN Jia and Ms. LIAN Hailun with Aidiken WFOE, Aidiken WFOE agreed to extend to each of Ms. LAN Jia and Ms. LIAN Hailun a loan (the "**Loans**") to be used exclusively for acquiring the equity interests in Hangzhou Adicon. The Loans must not be used for any other purposes. Such Loans will become immediately due and payable under any of the following circumstances: (i) twenty years has elapsed from the date of the Loans; or (ii) the operating period of Aidiken WFOE expires; or (iii) Ms. LAN Jia or Ms. LIAN Hailun ceases to hold any equity interests in Hangzhou Adicon; or (iv) Aidiken WFOE demands from Ms. LAN Jia and Ms. LIAN Hailun repayment of the Loans without cause at any time after serving 10 days notice as and when Aidiken WFOE considers appropriate at its absolute discretion. The Loans can only be repaid by transferring all of the equity interests in Hangzhou Adicon held by Ms. LAN Jia and Ms. LIAN Hailun to Aidiken WFOE (or its designee).

Equity Pledge Agreement

Under the amended and restated equity pledge agreement dated November 23, 2020 (the "**Equity Pledge Agreement**") entered into among Aidiken WFOE, Hangzhou Adicon and the Contractual Registered Shareholders, the Contractual Registered Shareholders pledged all of their respective equity interests in Hangzhou Adicon to Aidiken WFOE as collateral security to secure performance of their obligations and Hangzhou Adicon's obligations under the Equity Pledge Agreement, the Exclusive Option Agreement, the Exclusive Business Cooperation Agreement, the Loan Agreements and the Powers of Attorney (as defined below). In addition, under the Equity Pledge Agreement, none of the Contractual Registered Shareholders or Hangzhou Adicon may transfer or permit the encumbrance of any of the equity interests in Hangzhou Adicon without Aidiken WFOE's prior written consent.

Should an event of default (as provided in the Equity Pledge Agreement) occur, unless it is successfully resolved to Aidiken WFOE's satisfaction, Aidiken WFOE is entitled to implement the pledge under the Equity Pledge Agreement if the above default is not successfully resolved to Aidiken WFOE's satisfaction at the time of issuing the written demand or at any time thereafter.

The pledges under the Equity Pledge Agreement have been duly registered with the relevant PRC legal authority pursuant to PRC laws and regulations.

The Equity Pledge Agreement will remain effective until all obligations under the Exclusive Option Agreement, the Exclusive Business Cooperation Agreement, the Loan Agreements and the Powers of Attorney have been fully performed.

DIRECTORS' REPORT

Powers of attorney

Under the amended and restated powers of attorney dated November 23, 2020 (the "**Powers of Attorney**"), the Contractual Registered Shareholders irrevocably appointed Aidiken WFOE (or its designee) as their attorneys-in-fact to exercise all of their rights as registered shareholders of Hangzhou Adicon pursuant to applicable laws and the memorandum of association of Hangzhou Adicon at the time. These rights include the right to, among others, (i) propose and attend shareholders' meetings, and sign the relevant shareholders' resolutions and meeting minutes; (ii) receive dividends of Hangzhou Adicon; (iii) sell or transfer or pledge or dispose of all or part of Hangzhou Adicon's equity interests; (iv) obtain the properties of Hangzhou Adicon when it is liquidated; (v) designate and appoint Hangzhou Adicon's legal representative, directors, supervisors, chief executive officer and other senior management personnel; (vi) submit to government authorities any documents that need to be submitted by Hangzhou Adicon's shareholders; (vii) dissolve and liquidate Hangzhou Adicon and to serve as a member of the liquidation committee to exercise the powers of the liquidation committee during the liquidation period in accordance with PRC laws and regulations; and (viii) inspect Hangzhou Adicon's shareholders resolutions, board resolutions, records and financial records. Under the Powers of Attorney, if there are any conflicts between the rights of the Contractual Registered Shareholders and the instructions from Aidiken WFOE, the instructions from Aidiken WFOE shall prevail. As a result of the Powers of Attorney, the Company, through Aidiken WFOE, are able to exercise management control over the activities that most significantly impact the economic performance of Hangzhou Adicon.

The Powers of Attorney remain effective until (i) the parties agree to terminate in writing; or (ii) the Contractual Registered Shareholders transfer all of their respective equity interests in Hangzhou Adicon to Aidiken WFOE (or its designee) with Aidiken WFOE's prior written consent. Subject to applicable laws and unless stated otherwise in the agreement, the Contractual Registered Shareholders do not have the right to unilaterally terminate the contract.

Reasons for Adopting the Contractual Arrangements

As disclosed in the section headed "Contractual Arrangements" in the Prospectus, due to regulatory restrictions or prohibitions on foreign ownership in the PRC, the Company is restricted or prohibited from directly owning equity interest in the PRC Operating Entities, namely Hangzhou Adicon and its subsidiaries. Therefore, in order for the Group to effectively control and enjoy the entire economic benefit of Hangzhou Adicon and its subsidiaries, the Company has entered into the Contractual Arrangements, among Aidiken WFOE, Hangzhou Adicon and the Contractual Registered Shareholders. The Contractual Arrangements enable the Company to (i) receive substantially all of the economic benefits derived from the laboratories of the Group operated by Hangzhou Adicon and its subsidiaries; (ii) exercise effective control over Hangzhou Adicon and its subsidiaries; and (iii) hold an exclusive option to purchase all or part of the equity interests in Hangzhou Adicon and its subsidiaries with the lowest extent of purchase prices permitted by PRC law.

Risks Relating to the Contractual Arrangements

There are certain risks associated with the Contractual Arrangements, including:

- (i) If the PRC government deems that the Contractual Arrangements do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, the Group could be subject to severe penalties or be forced to relinquish its interests received through the Contractual Arrangements;

DIRECTORS' REPORT

- (ii) The Contractual Arrangements may not be as effective in providing operational control as direct ownership and the PRC Operating Entities and their shareholders may fail to perform their obligations under the Group's Contractual Arrangements;
- (iii) The Contractual Arrangements may result in adverse tax consequences to the Group;
- (iv) The Contractual Registered Shareholders of PRC Operating Entities may have conflicts of interest with the Group, which may materially and adversely affect its business; and
- (v) If the Company exercises the option to acquire equity ownership and assets of PRC Operating Entities, the ownership or asset transfer may subject the Company to certain limitations and substantial costs.

Details of these risks are provided in "Risk Factors—Risks Relating to our Contractual Arrangement" of the Prospectus.

Actions Taken by the Group to Mitigate the Risks relating to the Contractual Arrangements

The Group has adopted the following measures to ensure (i) the effective operation of the Group with the implementation of the Contractual Arrangements; (ii) the compliance of the Contractual Registered Shareholders with the Contractual Arrangements; and (iii) the potential conflict of interests between the Group and the Contractual Registered Shareholders:

- (i) Major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;
- (ii) The Board (including the independent non-executive Directors) will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- (iii) The Company will disclose the overall performance of and compliance with the Contractual Arrangements in the annual reports to update its Shareholders and potential investors;
- (iv) The Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements and the legal compliance of Hangzhou Adicon, Aidiken WFOE, the Contractual Registered Shareholders and the PRC Operating Entities to deal with specific issues or matters arising from the Contractual Arrangements;
- (v) The company seals, financial seals, contract seals and crucial corporate certificates of the PRC Operating Entities are kept by the Group's designated personnel. Any employee of the Group who wishes to use the seals will have to obtain internal approval following the Group's established policies and procedures. The business, legal and/or finance departments constitute the Group's central management system and the persons in charge of these departments as well as the department members responsible for the custody and handling of the seals and crucial corporate certificates are employees of the Group;
- (vi) In the event of the occurrence of a conflict of interests between the Group and the Contractual Registered Shareholders (where the Group has the sole and absolute discretion to determine whether such conflict arises), Hangzhou Adicon shall take appropriate measures upon the consent of Aidiken WFOE or its designee to eliminate such conflicts, failing which Aidiken WFOE will exercise, to the extent permitted under the PRC laws, the option under the Exclusive Option Agreement;

DIRECTORS' REPORT

- (vii) In order to further secure Aidiken WFOE's rights under the Exclusive Option Agreement, the Contractual Registered Shareholders have also entered into the Equity Pledge Agreements with Aidiken WFOE and Hangzhou Adicon, pursuant to which the Contractual Registered Shareholders pledged all their equity interests in Hangzhou Adicon in favor of Aidiken WFOE as security to guarantee the Contractual Registered Shareholders' performance of the contractual obligations under the Contractual Arrangement (including their obligations under the Exclusive Option Agreement);
- (viii) Pursuant to the Loan Agreements, Aidiken WFOE can demand from Ms. LAN Jia and Ms. LIAN Hailun repayment of the Loans without cause at any time after serving 10 days notice as and when Aidiken WFOE considers appropriate at its absolute discretion. The Loans can only be repaid by transferring all of the equity interests in Hangzhou Adicon held by Ms. LAN Jia and Ms. LIAN Hailun to Aidiken WFOE (or its designee); and
- (ix) Pursuant to a deed of undertaking dated March 19, 2021 given by all the partners of Hangzhou Kangming (namely Mr. GAO Song, Mr. PAN Chao, Mr. WANG Chengdong and four other existing and previous senior employees who are neither the Directors nor the senior management), each of the partners undertook that he/she will ensure the enforceability of the Contractual Arrangements.

In the event that Ms. LAN Jia, Ms. LIAN Hailun or the partners of Hangzhou Kangming (namely Mr. GAO Song, Mr. PAN Chao, Mr. WANG Chengdong and four other existing and previous senior employees who are neither the Directors nor the senior management) terminate their employment with the Group and/or its Shareholder (as the case may be), Aidiken WFOE will exercise its option under the Exclusive Option Agreement to require Ms. LAN Jia, Ms. LIAN Hailun or Hangzhou Kangming, to the extent permitted under the PRC laws, transfer their equity interests in Hangzhou Adicon to Aidiken WFOE or its designee so that the Group can maintain the same level of protection in controlling Hangzhou Adicon and/or enforcing the Contractual Arrangements.

Requirement Related to Contractual Arrangements (Other Than Relevant Foreign Ownership Restrictions)

On January 1, 2020, the Foreign Investment Law (《中華人民共和國外商投資法》) (the "**FIL**") and the Regulations for Implementation of the Foreign Investment Law of the People's Republic of China (the "**Implementation Regulations**") came into effect and, replaced the previous laws regulating foreign investment in PRC, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The FIL and its Implementation Regulations embody an expected regulatory trend in PRC to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments.

The FIL does not explicitly stipulate the contractual arrangements as a form of foreign investment. The FIL does not mention concepts including "de facto control" and "controlling through contractual arrangements" nor does it specify the regulation on controlling through contractual arrangements. Furthermore, the FIL does not specifically stipulate rules on the Relevant Businesses. Instead, the FIL stipulates that "foreign investors invest in PRC through any other methods under laws, administrative regulations, or provisions prescribed by the State Council", which leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a method of foreign investment. On December 26, 2019, the Supreme People's Court issued the Interpretations on Certain Issues Regarding the Applicable of Foreign Investment Law (the "**FIL Interpretations**"), which came into effect on January 1, 2020. In accordance with the FIL Interpretations, where a party concerned claims an investment agreement to be invalid on the basis that it is for an investment in the prohibited or restricted industries under the negative list and violates the restrictions set out therein, the courts should support such claim. In addition, the FIL does not specify what actions shall be taken with respect to the existing companies with a contractual arrangement, whether or not these companies are controlled by PRC entities and/or citizens.

DIRECTORS' REPORT

Listing Rules Implications and Waivers from the Stock Exchange

The transactions contemplated under certain Contractual Arrangements constitute continuing connected transactions of the Company under the Chapter 14A of the Listing Rules upon Listing, as the PRC Operating Entities will be treated as the Company's wholly-owned subsidiaries, and their directors, chief executives or substantial shareholders (as defined in the Listing Rules) and their respective associates will be treated as the connected persons of the Company.

In relation to the Contractual Arrangements, the Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.102 of the Listing Rules from strict compliance with (i) the announcement, circular and independent Shareholders' approval requirements under Rule 14A.105 of the Listing Rules, (ii) the annual cap requirement for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement for limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Shares are listed on the Stock Exchange subject, however, to the following conditions:

- (i) no change to the Contractual Arrangements will be made without the approval of the independent non-executive Directors;
- (ii) save as described in paragraph (iv) below, no change to the agreements governing the Contractual Arrangements will be made without the independent Shareholders' approval. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of the Company will, however, continue to be applicable;
- (iii) the Contractual Arrangements shall continue to enable the Group to receive the economic benefits derived by the Consolidated Affiliated Entities;
- (iv) the Contractual Arrangements may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign-owned enterprise or operating company (including branch companies) engaging in the same business as that of the Group which the Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements; and
- (v) the Group will disclose details relating to the Contractual Arrangements on an ongoing basis.

Details of the waivers granted by the Stock Exchange are provided in "Waivers from Strict Compliance with the Listing Rules" and "Connected Transactions" of the Prospectus.

DIRECTORS' REPORT

Financial Position and Results of Operations

The PRC Operating Entities are primarily engaged in the ICL business in China. The PRC Operating Entities contributed the majority of the Group's financial positions and results of operations. The revenue of the PRC Operating Entities amounted to RMB3,248.7 million for the year ended December 31, 2023, representing approximately 98.5% of the total revenue of the Group. As of December 31, 2023, the total assets of the PRC Operating Entities amounted to RMB3,657.2 million, representing approximately 80.3% of the total assets of the Group.

Save as disclosed above, there were no other new contractual arrangements entered into, renewed and/or reproduced between the Group and the PRC Operating Entities during the year ended December 31, 2023. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted during the year ended December 31, 2023, and none of the Contractual Arrangements had been unwound because none of the restrictions that led to the adoption of the Contractual Arrangements had been removed. The Group had not encountered any interference or encumbrance from any PRC governing bodies in operating its businesses through the PRC Operating Entities under the Contractual Arrangements.

Annual Review by the Independent Non-Executive Directors and the Auditor

The independent non-executive Directors have reviewed the Contractual Arrangements outlined above, and confirmed that:

- (i) The transactions under the Contractual Arrangements carried out during the year ended December 31, 2023 have been entered into in accordance with the relevant provisions of the Contractual Arrangements;
- (ii) No dividends or other distributions have been made by the PRC Operating Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group during the year ended December 31, 2023; and
- (iii) Any new contracts entered into, renewed or reproduced between the Group and the PRC Operating Entities during the year ended December 31, 2023 are fair and reasonable, or advantageous to the Shareholders, so far as the Group is concerned and in the interests of the Company and the Shareholders as a whole.

The Auditor has carried out review procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants annually on the transactions carried out pursuant to the Contractual Arrangements.

Contractual Arrangements: (1) nothing has come to their attention that causes the Auditor to believe that the disclosed transactions under the Contractual Arrangements have not been approved by the Board; (2) nothing has come to their attention that causes the Auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements under the Contractual Arrangements governing such transactions; and (3) nothing has come to their attention that causes the Auditor to believe that there were dividends or other distributions have been made by the PRC Operating Entities to the holders of their equity interests which were not otherwise subsequently assigned or transferred to the Group.

DIRECTORS' REPORT

EMPLOYEE INCENTIVE PLANS AND EQUITY-LINKED ACTIVITIES

As of the date of this annual report, the Company has adopted three share schemes, namely, the senior executive incentive plan (the "**Senior Executive Incentive Plan**"), the senior management incentive plan (the "**Senior Management Incentive Plan**"), together with the Senior Executive Incentive Plan, the "**2019 Incentive Plans**") and the 2024 Incentive Plan.

2019 Incentive Plans

The Senior Executive Incentive Plan and the Senior Management Incentive Plan were both adopted and approved on July 9, 2019, and were subsequently amended and restated on November 7, 2020, April 14, 2021 and October 1, 2021. The terms of the two 2019 Incentive Plans are substantially similar. The principal terms of the 2019 Incentive Plans are set out in "Appendix IV — Statutory and General Information" of the Prospectus.

A summary of the principal terms of the 2019 Incentive Plans are set out below:

Purpose

The purpose of the 2019 Incentive Plans is to give Eligible Employees (as defined below) an opportunity to have a personal stake in the Company so as to motivate them to optimize their performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Employees who are significant to and/or whose contributions are or will be beneficial to the performance, growth and success of the Group.

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.

Eligible Employees and Plan Administrator

Any employees of the Group as determined by the administration of a plan administrator (the "**Plan Administrator**"), in his/her absolute discretion (the "**Eligible Employees**").

Plan Administrator is any Director who is authorized by the Board to carry out its functions under the 2019 Incentive Plans.

Maximum Number of Shares Available for Issue

The overall limit on the number of underlying Shares pursuant to the 2019 Incentive Plans is 66,205,516 Shares. Before the Listing, the underlying Shares of options and/or RSUs under the 2019 Incentive Plans had already been fully issued and there is no more Share available for issue.

As of the date of this annual report, the issued underlying Shares under the 2019 Incentive Plans amounts to 66,205,516 Shares, which includes (i) 52,743,281 Shares issued to Ingenuity Capital Holdings Limited, in trust for the purpose of the Senior Executive Incentive Plan; and (ii) 13,462,235 Shares issued to Proteus Capital Holdings Limited, in trust for the purpose of the Senior Management Incentive Plan, representing approximately 7.3% and 1.9% of the total issued Shares of the Company, respectively, as of the date of this annual report, being 727,354,791 Shares.

DIRECTORS' REPORT

Maximum Entitlement of Each Participant

The 2019 Incentive Plans contain no provisions on the maximum entitlement of each participant.

Exercise Period

The Plan Administrator of the 2019 Incentive Plans determines the latest date on which the option may be exercised, as specified in the relevant grant letter.

Vesting Period

The Plan Administrator of the 2019 Incentive Plans determines the vesting period for options and/or RSUs, as specified in the relevant grant letter. After any time after grant of option, the Plan Administrator may, in his or her sole discretion and subject to whatever terms and conditions he or she selects, accelerate the period during which an option vests.

Consideration Payable for Options or RSUs

No consideration shall be payable for the grant of the options and/or RSUs under the 2019 Incentive Plans.

Basis of Determining the Exercise Price or Purchase Price

The Plan Administrator of the 2019 Incentive Plans determines the exercise price of the option granted and/or the purchase price of the RSU granted, as specified in the relevant grant letter. If Shares are to be newly issued to satisfy the exercise of the options and/or the vest of the RSUs, the exercise price and/or purchase price may not be less than the nominal value of a Share.

Remaining Life

The 2019 Incentive Plans shall continue in effect for a term of ten years from its date of effectiveness. The remaining life of the 2019 Incentive Plans is over five years.

DIRECTORS' REPORT

The following table shows the details of the RSUs granted under the 2019 Incentive Plans during the year ended December 31, 2023:

Name and Category of grantee	Date of grant ⁽¹⁾	Vesting period	Purchase price	Number of Shares underlying RSUs				Weighted average closing price per Share before the date of vest	
				Outstanding as of January 1, 2023	Granted between January 1, 2023 to December 31, 2023	Vested between January 1, 2023 to December 31, 2023	Lapsed January 1, 2023 to December 31, 2023		Outstanding as of December 31, 2023
<i>Director</i>									
Mr. GAO Song	November 24, 2021	January 2022 - March 2026	USD 1.67	12,000,000	—	2,924,646	2,175,354	6,900,000	USD 1.67
Other employees	November 24, 2021 ~ February 9, 2022	January 2022 - March 2025	USD 1.50	200,000	—	74,988	95,012	30,000	USD 1.50
Total				<u>12,200,000</u>	<u>—</u>	<u>2,999,634</u>	<u>2,270,366</u>	<u>6,930,000</u>	

The following table shows the details of outstanding options granted under the 2019 Incentive Plans during the year ended December 31 2023:

Name and Category of grantee	Date of grant ⁽¹⁾	Vesting period	Exercise price	Number of Shares underlying options				Weighted average closing price per Share before the date of exercise	
				Outstanding as of January 1, 2023	Granted between January 1, 2023 to December 31, 2023	Exercised between January 1, 2023 to December 31, 2023	Cancelled/ Forfeited between January 1, 2023 to December 31, 2023		Outstanding as of December 31, 2023
<i>Directors</i>									
Mr. GAO Song	February 25, 2020 ~ January 28, 2021	February 2020 - March 2022	USD 0.38-USD 1.50	1,425,000	—	1,425,000	—	—	USD 0.94
Other employees	July 19, 2019 - April 1, 2023	July 2019 - March 2024	USD 0.38-USD1.67	17,373,798	12,133,698	761,612	3,527,529	25,218,355	USD 0.43
Total				<u>18,798,798</u>	<u>12,133,698</u>	<u>2,186,612</u>	<u>3,527,529</u>	<u>25,218,355</u>	

Note:

- (1) The options and RSUs under the 2019 Incentive Plans were granted before the Listing and the fair value of such options and RSUs is not applicable as of the date of this annual report. Please refer to notes 32 in the Financial Statements for relevant accounting standard and policy adopted and more details.

DIRECTORS' REPORT

2024 Incentive Plan

2024 Incentive plan was adopted and approved on March 28, 2024 (the "**Adoption Date**"). A summary of the principal terms of the 2024 Incentive Plan are set out below:

Purpose

The purpose of the 2024 Incentive Plan is to give Eligible Participants (as defined below) an opportunity to have a personal stake in the Company so as to motivate them to optimize their performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth and success of the Group.

The options and RSUs to be granted under the 2024 Incentive Plan are funded by existing Shares only, and does not involve the grant by the Company to any Eligible Participants of (a) any new Shares, or (b) options over any new Shares. The 2024 Incentive Plan constitutes a share scheme under Chapter 17 of the Listing Rules and shall be subject to the applicable disclosure requirements under Rule 17.12 of the Listing Rules. As the 2024 Incentive Plan does not constitute a scheme involving the issue of new Shares, the adoption of such scheme is not subject to approval by the Shareholders.

Eligible Participants and Plan Administrator

Any employees of the Group, service provider(s) or related entity participant(s) (the "**Eligible Participants**") who the administrator (the "**2024 Plan Administrator**") of the 2024 Incentive Plan, in his or her absolute discretion determines is eligible to be granted an option or RSU under the 2024 Incentive Plan.

2024 Plan Administrator is any individual who is authorized by the Board to carry out the function under the 2024 Incentive Plan.

Maximum Number of Shares Available for Issue

The maximum number of options and RSUs that may be granted under the 2024 Incentive Plan in aggregate shall be up to such number of Shares to be purchased by the trustee entrusted by the Company for the purposes of, among others, purchasing existing Shares in the secondary market as authorized by the Board from time to time at the market trading price. Options and/or RSUs lapsed or cancelled in accordance with the terms of the 2024 Incentive Plan will not be counted for the purpose of calculating the aggregate maximum number of options and RSUs to be granted under the 2024 Incentive Plan.

As of the date of this annual report, no existing Shares has been purchased by the trustee for the purposed of 2024 Incentive Plan and no option or RSU has been granted under the 2024 Incentive Plan.

DIRECTORS' REPORT*Maximum Entitlement of Each Participant*

There is no specific limit on the maximum entitlement of each Eligible Participant under the 2024 Incentive Plan.

Exercise Period

The 2024 Plan Administrator determines the latest date on which the option may be exercised, as specified in the relevant grant letter.

Vesting Period

The 2024 Plan Administrator determines the vesting period for options and/or RSUs, as specified in the relevant grant letter. After any time after grant of option, the 2024 Plan Administrator may, in his or her sole discretion and subject to whatever terms and conditions he or she selects, accelerate the period during which an option vests.

Consideration Payable for Options or RSUs

No consideration shall be payable for the grant of the options and/or RSUs under the 2024 Incentive Plan.

Basis of Determining the Exercise Price or Purchase Price

The 2024 Plan Administrator determines the exercise price of the option granted and/or the purchase price of the RSUs granted, as specified in the relevant grant letter.

Remaining Life

The 2024 Incentive Plan shall continue in effect for a term of ten years from its date of effectiveness. The remaining life of the 2024 Incentive Plan is approximately ten years.

DIRECTORS' REPORT

Convertible Bonds

As at the date of this annual report, the Company has not issued any convertible bonds.

Equity-Linked Agreement

Other than the 2019 Incentive Plans, no equity-linked agreements that will or may result in the Company issuing shares, or that require the Company to enter into any agreements that will or may result in the Company issuing shares, were entered into by the Company during the period from the Listing Date to December 31, 2023.

CONTINUING DISCLOSURE OBLIGATION PURSUANT TO THE LISTING RULES

As of December 31, 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.

EVENTS AFTER THE YEAR ENDED DECEMBER 31, 2023

On March 28, 2024, the Board adopted the 2024 Incentive Plan. The awards to be granted under the 2024 Incentive Plan are funded by existing Shares only, and does not involve the grant by the Company to any eligible participants of (a) any new Shares, or (b) options over any new Shares. The Board will entrust an independent third party as trustee of the 2024 Incentive Plan for the purposes of, among others, purchasing existing Shares in the secondary market as authorized by the Board from time to time at the market trading price. This 2024 Incentive Plan constitutes a share scheme under Chapter 17 of the Listing Rules and shall be subject to the applicable disclosure requirements under Rule 17.12 of the Listing Rules. As the 2024 Incentive Plan does not constitute a scheme involving the issue of new Shares, the adoption of such plan was not required to be approved by the Shareholders.

Save as disclosed above, the Directors are not aware of any significant event requiring disclosure that has taken place subsequent to December 31, 2023 and up to the date of this report.

By order of the Board

ADICON Holdings Limited

Ms. YANG Ling

Chairwoman

Hong Kong, March 28, 2024



CORPORATE GOVERNANCE REPORT

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.

The Board considers that during the period from the Listing Date to December 31, 2023 (the "Relevant Period"), the Company has applied the principles and complied with the code provisions set out in the CG Code. Key corporate governance principles and practices of the Company as well as the foregoing deviation, if any, are summarized below.

The Company recognizes that a good corporate culture is essential to support and complement its corporate governance efforts and corporate image, and has developed a corporate culture emphasizing on lawful, ethical and responsible business conduct over the years, which has been reflected in the overall operations and management of the Group. In order to promote open communication in the workplace and high ethical standards among staff and management of the Group, the Group has established anti-corruption and whistle-blowing policies and training, to provide guidance on identifying potential breaches or improper behaviour, reporting procedures and consequences of violations of such policies. For further details on the Group's anti-corruption and whistle-blowing policies, please see the environmental, social and governance report.

A. THE BOARD

A1. Responsibilities and Delegation

The Board is responsible for the leadership, control and management of the Company and overseeing the Group's business, strategic decision and performances in the attainment of the objective of ensuring effective functioning and growth of the Group and enhancing value to investors. All the Directors carry out their duties in good faith, take decisions objectively and act in the interests of the Company and Shareholders at all times.

The Board reserves for its decision on all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, risk management and internal control systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

All Directors have timely access to all relevant information as well as the advice and services of the senior management and the Joint Company Secretaries, with a view to ensuring compliance with Board procedures and all applicable laws and regulations. Any Director may request for independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request made to the Board.

The senior management is delegated the authority and responsibilities with clear directions by the Board for the day-to-day management and operation of the Group. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the senior management. The Board has the full support of the senior management to discharge its responsibilities.

CORPORATE GOVERNANCE REPORT

A2. Board Composition

The composition of the Board as at the date of this report is as follows:

Executive Director:

Mr. GAO Song (*Chief executive officer and member of the Strategy Committee*)

Non-executive Directors:

Ms. YANG Ling (*Chairwoman of the Board, the Nomination Committee and the Strategy Committee, and member of the Remuneration Committee*)

Mr. LIN Jixun

Ms. FENG Janine Junyuan

Ms. LIM Kooi June

Independent non-executive Directors:

Mr. MI Brian Zihou (*Chairman of the Remuneration Committee, and member of the Audit Committee and the Strategy Committee*)

Mr. YEH Richard (*Chairman of the Audit Committee and member of the Nomination Committee*)

Mr. ZHANG Wei (*member of the Audit Committee, the Remuneration Committee and the Nomination Committee*)

Throughout the Relevant Period, the Board has met the requirements of the Listing Rules 3.10 and 3.10A of having a minimum of three independent non-executive Directors (representing at least one-third of the Board) with one of them, being Mr. YEH Richard, possessing appropriate professional qualifications and accounting and related financial management expertise.

The members of the Board have skills and experience appropriate for the business requirements and objectives of the Group. The executive Director is responsible for the businesses and functional divisions of the Group. The non-executive Directors scrutinize the performance of management in achieving agreed corporate goals and objectives and monitor the Group's performance reporting. The independent non-executive Directors bring different businesses and financial expertise, experiences and independent judgement to the Board and they constitute the majority of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. Through participation in Board meetings and taking the lead in managing issues involving potential conflicts of interests, the independent non-executive Directors have made contributions to the effective direction of the Company and provided adequate checks and balances to safeguard the interests of both the Group and the Shareholders.

To the best knowledge of the Directors, the Directors and senior management have no financial, business, family or other material/relevant relationships with one another. The Company has received written annual confirmation from each independent non-executive Director of his/her independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent with reference to the independence guidelines set out in the Listing Rules.

CORPORATE GOVERNANCE REPORT

The Company has established mechanisms to ensure independent views and input are available to the Board and conducted review of such mechanisms on an annual basis.

All Directors are entitled to seek, at the Company's expense, independent professional advice reasonably necessary for discharging their duties as Directors.

The Nomination Committee annually assesses the independence of each Independent Non-Executive Director during his term of appointment. The Company received from each of the Independent Non-Executive Directors a written confirmation of his independence pursuant to Rule 3.13 and paragraph 12B of the Appendix D2 to the Listing Rules. Based on such confirmations and the report of the Nomination Committee, the Company considers that all the independent non-executive Directors continue to demonstrate strong independence and all remain independent. The Board has reviewed the implementation and effectiveness of the mechanisms and considered them to be effective for the year ended December 31, 2023.

A3. Appointment and Re-election of Directors

According to the Articles, one-third of the Directors for the time being, (if their number is not three or a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each AGM provided that every Director shall be subject to retirement by rotation at least once every three years. The retiring Directors should be eligible for re-election at the relevant AGM. In addition, any new Director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office only until the first annual general meeting of the Company after his appointment. The Director appointed by the Board as aforesaid shall be eligible for re-election at the relevant general meeting.

Each Director (including the non-executive Directors and independent non-executive Directors) is engaged for a term of three years. They are subject to retirement and re-election in accordance with the provisions of the Articles as mentioned above.

CORPORATE GOVERNANCE REPORT

A4. Training and Continuing Development for Directors

Each newly appointed Director will receive formal induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Group and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Such induction shall be supplemented by visits to the Company's key laboratories and meetings with senior management of the Company. All Directors had obtained advice from Kirkland & Ellis and confirmed that they understood their obligations as Directors of a listed issuer on June 23, 2023.

The existing Directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. Trainings and professional development for Directors are arranged whenever necessary. In addition, reading material on new or changes to salient laws and regulations applicable to the Group are provided to Directors from time to time for their studying and reference.

The Directors are required to submit to the Company details of the trainings they received in each financial year for the Company's maintenance of proper training records of the Directors. According to the training records currently maintained by the Company, during the Relevant Period, the Directors have complied with the code provision C.1.4 of the CG Code on participation in continuous professional training as follows:

	Type of trainings/education	
	Attending trainings on regulatory development, directors' duties or other relevant topics	Reading regulatory updates or corporate governance related materials or materials relevant to directors' duties
Mr. GAO Song	✓	✓
Ms. YANG Ling	✓	✓
Mr. LIN Jixun	✓	✓
Ms. FENG Janine Junyuan	✓	✓
Ms. LIM Kooi June	✓	✓
Mr. MI Brian Zihou	✓	✓
Mr. YEH Richard	✓	✓
Mr. ZHANG Wei	✓	✓

CORPORATE GOVERNANCE REPORT

A5. Directors' Attendance Records at Meetings

The attendance records of each Director at the Board and Board committee meetings and the general meeting of the Company held during the Relevant Period are set out below:

Attendance/Number of Meetings					
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Strategy Committee
Executive Director:					
Mr. GAO Song	4/4				2/2
Non-executive Directors:					
Ms. YANG Ling	4/4		2/2	2/2	2/2
Mr. LIN Jixun	4/4				
Ms. FENG					
Janine Junyuan	4/4				
Ms. LIM Kooi June	4/4				
Independent non-executive Directors:					
Mr. MI Brian Zihou	4/4	2/2	2/2		2/2
Mr. YEH Richard	4/4	2/2		2/2	
Mr. ZHANG Wei	2/2	2/2	2/2	2/2	

In addition, the Chairwoman held a meeting with the independent non-executive Directors without the presence of other Directors during the Relevant Period.

A6. Model Code for Securities Transactions

The Board meets to review the Company's key activities. Board meetings are held at least four times a year at approximately quarterly interval to discuss and review the objectives, strategies and policies of the Company, including any significant acquisitions and disposals, annual budget, financial performance and to approve the release of the financial results. Ad-hoc Board meetings will be held, as and when necessary, to address significant transactions or issues that may arise in between regular meetings.

The Company has adopted the Model Code as its own code of conduct regarding dealings in the securities of the Company by the Directors 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 throughout the Relevant Period. In addition, no incident of non-compliance of the Model Code by the senior management of the Group was noted during the Relevant Period.

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.

CORPORATE GOVERNANCE REPORT

A7. Corporate Governance Functions

The Board is responsible for performing the corporate governance functions set out in the code provision A.2.1 of the CG Code.

During the year under review, the Board has performed corporate governance functions as follows: (i) reviewed and developed the Company's corporate governance policies and practices; (ii) reviewed and monitored the training and continuous professional development of Directors and senior management; (iii) reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements; (iv) reviewed and monitored the compliance of the Model Code; and (v) reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

B. BOARD COMMITTEES

The Company has four Board committees, namely, the Remuneration Committee, the Nomination Committee, the Audit Committee and the Strategy Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference which are available on the websites of the Company and the Stock Exchange. All the Board committees should report to the Board on their decisions or recommendations made.

All Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

B1. Remuneration Committee

The Remuneration Committee currently comprises a total of three members, being one non-executive Director, namely Ms. YANG Ling, and two independent non-executive Directors, namely Mr. MI Brian Zihou (chairman of the Remuneration Committee) and Mr. ZHANG Wei. Throughout the Relevant Period, the Company has met the Listing Rules requirements of having the majority of the Remuneration Committee members being independent non-executive Directors as well as having the Committee chaired by an independent non-executive Director.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's remuneration policy and structure and on the remuneration packages of Directors and members of senior management (i.e. the model described in the code provision E.1.2(c)(ii) of the CG Code is adopted). The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by the Board with reference to the performance of the individual and the Company as well as market practice and conditions. The Remuneration Committee is also responsible for reviewing and/or approving matters relating to share schemes under Chapter 17 of the Listing Rules.

During the Relevant Period, the Remuneration Committee has reviewed the existing remuneration policy and structure of the Company, assessed performance of executive Director, approved the terms of service contracts / letters of appointment of Directors, considered and made recommendations to the Board on the remuneration packages of Directors and senior management, the proposed remuneration package of the proposed independent non-executive Director, approved the grant of options and/or RSUs under the Employee Incentive Plans, and ensured that share options and RSUs offered by the Company to its Directors and employees during the year ended December 31, 2023 are in accordance with Chapter 17 of the Listing Rules and share schemes are in compliance with applicable laws and regulations and made relevant recommendations to the Board.

The attendance records of each Committee member in the Committee meeting are set out in section A5 above.

CORPORATE GOVERNANCE REPORT

Pursuant to code provision E.1.5 of the CG Code, the annual remuneration of the members of the senior management by band for the year ended December 31, 2023 is set out below:

Remuneration band (HK\$)	Number of individual
HKD2,000,001 to HKD2,500,000	2
HKD2,500,001 to HKD4,000,000	1
HKD4,500,001 to HKD10,000,000	—
HKD10,000,001 to HKD20,000,000	1

The amount of remuneration includes the amortisation of the fair value of share-based compensation, wages, salaries, bonus, contribution to social securities and housing fund. Details of the remuneration of each Director for the year ended December 31, 2023 are set out in note 11 to the consolidated financial statements contained in this annual report.

B2. Nomination Committee

The Nomination Committee currently comprises a total of three members, being one non-executive Director and the Chairwoman of the Board, namely Ms. YANG Ling (chairwoman of the Nomination Committee), and two independent non-executive Directors, namely Mr. YEH Richard and Mr. ZHANG Wei. Throughout the Relevant Period, the Company has met the Listing Rules requirements of having a majority of the Nomination Committee members being independent non-executive Directors and having the Nomination Committee chaired by the chairwoman of the Board.

The principal responsibilities of the Nomination Committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and recommending any changes to the Board; identifying qualified and suitable individuals to become Board members and selecting and making recommendations to the Board on the selection of individuals nominated for directorships; assessing the independence of independent non-executive Directors; and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors, in particular, the chairwoman and the chief executive of the Company.

In selecting candidates for directorship of the Company, the Nomination Committee may make reference to certain criteria such as the Company's needs, the diversity on the Board, the integrity, experience, skills and professional knowledge of the candidate and the amount of time and effort that the candidate will devote to discharge his/her duties and responsibilities. External recruitment professionals might be engaged to carry out selection process when necessary.

CORPORATE GOVERNANCE REPORT

The Company also recognizes and embraces the benefit of having a diverse Board to enhance the quality of its performance. To comply with Rule 13.92 and Appendix C1 to the Listing Rules, a Board diversity policy was adopted by the Company, pursuant to which the Nomination Committee is responsible for monitoring the implementation of the Board diversity policy and assessing the Board composition under diversified perspectives (including but not limited to gender, age, cultural and educational background, or professional experience). The Nomination Committee shall report its findings and make recommendation to the Board, if any. Such policy and objectives will be reviewed from time to time to ensure their appropriateness in determining the optimum composition of the Board. As of the date of this annual report, the Board consisted of eight Directors, including three female Directors and professionals in law and accounting, and the Board has achieved diversity in its membership in terms of gender, professional background and skill, etc. As of the date of this annual report, 3 out of 11 of senior management of the Company are female. As of December 31, 2023, the Group had a total of 3,337 female staff out of 5,713 employees, representing 58.4% of the employees of the Group. The Group will continue to take opportunities to increase the proportion of female board members and workforce over time as and when suitable candidates are identified. For further details, please refer to the Environmental, Social and Governance Report of the Company.

The Board and the Nomination Committee have reviewed the implementation and effectiveness of the board diversity policy and considered it to be effective for the year ended December 31, 2023.

The Company has adopted the director nomination policy. Such policy, devising the criteria and process of selection and performance evaluation, provides guidance to the Board on nomination and appointment of Directors. In designing the Board's composition, the Nomination Committee and the Board take into account a wide range of aspects, including but not limited to gender, socioeconomic background, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, length of service and any other factors that the Board may consider relevant and applicable from time to time. High emphasis is placed on ensuring a balanced composition of skills and experience at the Board level in order to provide a range of perspectives and insights that enable the Board to discharge its duties and responsibilities effectively, support good decision making in view of the core businesses and strategy of the Group, and support succession planning and development of the Board. The Board believes that the defined selection process is good for corporate governance in ensuring the Board continuity and appropriate leadership at Board level, and enhancing better Board effectiveness and diversity as well as in compliance with the applicable rules and regulations.

During the Relevant Period, the Nomination Committee has performed the following major works:

- Review of the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements for the business of the Group;
- Recommendation on the re-election of the retiring Directors at the forthcoming annual general meeting;
- Assessment of the independence of all the independent non-executive Directors;
- Adopted and reviewed the Board diversity policy.

In assessing the Board composition, the Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained. The attendance records of each Nomination Committee member in the Nomination Committee meeting are set out in section A5 above.

CORPORATE GOVERNANCE REPORT

B3. Audit Committee

The Company has met the Listing Rules requirements regarding the composition of the Audit Committee throughout the Relevant Period. The Audit Committee currently comprises a total of three members, being three independent non-executive Directors, namely Mr. MI Brian Zihou, Mr. YEH Richard and Mr. ZHANG Wei. The chairman of the Audit Committee is Mr. YEH Richard who possesses the appropriate professional qualification, and accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The main duties of the Audit Committee are reviewing the financial information and reports of the Group and considering any significant or unusual items raised by the financial officers of the Group or external auditor before submission to the Board; reviewing the relationship with and the terms of appointment of the external auditor and making relevant recommendations to the Board; and reviewing the Company's financial reporting system, risk management and internal control systems and the effectiveness of the internal audit function.

During the Relevant Period, the Audit Committee has performed the following major works:

- Consideration and recommendation of the re-appointment of Ernst & Young as the external auditor of the Company;
- Review and discussion of the interim financial statements, results announcement and report for the six months ended June 30, 2023 and the related accounting principles and practices adopted by the Group;
- Discussion of the nature, plan and scope of the Group's audit and the audit fee for the year ended December 31, 2023; and
- Review of the arrangements for employees of the Group to raise concerns about possible improprieties in the Group's financial reporting, internal control or other matters and the investigation process on the reported cases.

The external auditor has attended all of the above meetings and discussed with the Audit Committee members on issues arising from the audit and financial reporting matters. Besides, there is no disagreement between the Board and the Audit Committee regarding the appointment of external auditor.

The attendance records of each Audit Committee member in the Audit Committee meetings are set out in section A5 above.

CORPORATE GOVERNANCE REPORT

B4. Strategy Committee

The Strategy Committee currently comprises a total of three members, being one non-executive Director and the Chairwoman of the Board, namely Ms. YANG Ling (chairwoman of the Strategy Committee), one executive Director, namely Mr. GAO Song and one independent non-executive Directors, namely Mr. MI Brian Zihou.

The main duties of the Strategy Committee are to formulate and evaluate the business development strategy of the Group and to facilitate, monitor the implementation of the business development and the strategic planning of the Group and make recommendations to the Board in relation to major corporate actions and investments of the Group.

During the Relevant Period, the Strategy Committee has performed the following major works:

- Research, formulate and recommend the business development strategy of the Group;
- Research, formulate and recommend the implementation plan for implementing the business development strategy of the Group;
- Monitor the implementation of the business development strategy of the Group and make recommendations to the Board;
- Make recommendations to the Board when there is any significant matters affecting the development of the Company; and
- Other duties as delegated by the Board.

The attendance records of each Strategy Committee member in the Strategy Committee meetings are set out in section A5 above.

C. DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors have acknowledged their responsibilities for preparing the financial statements of the Group for the year ended December 31, 2023.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports and other financial disclosures required under the Listing Rules and other regulatory requirements. The management has provided such explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial information and position of the Group put forward to the Board for approval.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

CORPORATE GOVERNANCE REPORT

D. RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems. The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems. The Board reviews the effectiveness of the risk management and internal control systems as well as the internal audit function of the Company on an annual basis through the Audit Committee.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including production, procurement, marketing, finance, human resources, and information technology. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each department.

All departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. The management, in coordination with department heads, assesses the likelihood of risk occurrence, provides treatment plans, and monitors the risk management progress. The management has reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended December 31, 2023.

The Company's internal auditor is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. During the year under review, the internal auditor examined key issues in relation to the accounting practices and all material controls and provided its findings to the Audit Committee.

During the year ended December 31, 2023, the Board, as supported by the Audit Committee as well as the report from the management and the internal audit findings, reviewed the effectiveness of the Group's risk management and internal control systems, including the financial, operational and compliance controls, and considered that such systems are effective and adequate.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

E. JOINT COMPANY SECRETARIES

Mr. WANG Lawrence Allen and Ms. SO Ka Man, are the Company's joint company secretaries. Ms. SO is a director of corporate service of Tricor Services Limited, a global professional services provider specializing in integrated business, corporate and investor services.

All Directors have access to the advice and services of the joint company secretaries on corporate governance and board practices and matters. Mr. WANG has been designated as the primary contact person at the Company to work and communicate with Ms. SO on the Company's corporate governance and secretarial and administrative matters.

Mr. WANG and Ms. SO have taken not less than 15 hours of relevant professional training and comply with the requirement under Rule 3.29 of the Listing Rules for the year ended December 31, 2023.

CORPORATE GOVERNANCE REPORT

F. EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company, Ernst & Young, about their reporting responsibilities on the Company's financial statements for the year ended December 31, 2023 is set out in the section headed "Independent Auditor's Report" in this annual report.

The fees paid/payable to Ernst & Young in respect of audit services and non-audit services for the year ended December 31, 2023 are analyzed below. The remuneration for the audit services includes the service fees in connection with audit and reviews of the Group. The non-audit services conducted by the Auditor mainly include professional services on consultation services.

Type of services provided by the external auditor	Fees paid/ payable (RMB'000)
Audit services	3,380
Non-audit services	1,613
TOTAL:	4,993

G. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company has established the shareholders' communication policy and believes that effective communication with Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognizes the importance of transparent and timely disclosure of corporate information, which enables Shareholders and investors to make informed investment decisions.

The Company maintains a website at www.adicon.com.cn as a communication platform with Shareholders and investors, where information and updates on the Company's business developments and operations and other information are available for public access. Shareholders and investors may send their written enquiries or requests to the Company via the following contact details:

Address: Suite 1303, 13/F, Golden Centre
188 Des Voeux Road Central
Sheung Wan
Hong Kong

Email: ir@adicon.com.cn

Fax number: (86) 0571 8777 5775

Enquiries and requests will be dealt with by the Company in an informative and timely manner.

Besides, Shareholders' meetings provide an opportunity for communication between the Board and the Shareholders. It is the Company's general practice that the chairwoman of the Board as well as chairmen of the Audit Committee, Nomination Committee, Remuneration Committee and Strategy Committee, or in their absence, their duly appointed delegates will be available to answer questions at the AGM and other general meetings of the Company. In addition, the Company will invite representatives of the auditor to attend its AGM to answer Shareholders' questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence, if any. The Company reviewed the implementation and effectiveness of the shareholders' communication policy and considered it to be effective for the year ended December 31, 2023 with the above measures in place.

CORPORATE GOVERNANCE REPORT

H. SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions put forward at Shareholders' meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company (www.adicon.com.cn) and the Stock Exchange after each Shareholders' meeting. The Articles allow a Shareholder entitled to attend and vote at a general meeting to appoint a proxy, who need not be a Shareholder, to attend the meeting and vote thereat on his/her/its behalf.

Pursuant to the Articles, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

There is no provision allowing Shareholders to move new resolutions at general meetings under the Cayman Islands Companies Act or the Articles. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

With respect to the Shareholders' right in proposing persons for election as Directors, please refer to the procedures available on the website of the Company.

During the Relevant Period under review, the Company has not made any changes to the Articles. An up-to-date version of the Articles is available on the websites of the Company and the Stock Exchange.

Shareholders may refer to the Articles for further details of the rights of Shareholders.

INDEPENDENT AUDITOR'S REPORT



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To the shareholders of ADICON Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of ADICON Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 74 to 170, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matter	How our audit addressed the key audit matter
<p><i>Provision for expected credit losses on trade and bills receivables</i></p> <p>As at 31 December 2023, the Group's gross trade and bills receivables were RMB1,757,807,000, representing 38.6% of the total assets of the Group, on which an amount of RMB242,373,000 was provided for expected credit losses.</p> <p>Management applied the simplified approach under IFRS9 to measure lifetime expected credit losses ("ECLs") of trade and bills receivables based on a provision matrix through the classification of various customers into different groups, taking into account their ageing, historical denial and past collection experience. Management established the ECL model with the involvement of an external independent valuer. The ECLs were determined based on historical default rates and were adjusted to reflect forward-looking factors in relation to the industry, market and the macroeconomic environment that may affect the ability of the customers to repay.</p> <p>The estimation of ECLs involves significant estimates, which may be affected by unexpected future market and economic conditions, we identified the assessment of provision for ECLs on trade and bills receivables as a key audit matter.</p> <p>Details of the provision for ECLs on trade and bills receivables are disclosed in notes 2.4, 3 and 21 to the consolidated financial statements.</p>	<p>Our audit procedures in relation to assessment of ECLs on trade and bills receivables included, among others, the following:</p> <ul style="list-style-type: none"> • We obtained an understanding of and evaluated the relevant controls related to the assessment of the expected credit losses on trade and bills receivables; • We evaluated the methodology for ECL provision on trade and bills receivables adopted by management; • With the assistance of our internal valuation specialists, we evaluated the appropriateness of the valuation methodology and key assumptions adopted by the management, including forward-looking factors; • We tested, on a sampling basis, the data inputs used by management to prepare the provision matrix, including the basis management used to categorise customers into different credit risk groups and ageing and historical collection records of trade and bills receivables prepared by management; • We evaluated the competence, capabilities and objectivity of the external independent valuer engaged by management; and • We evaluated the adequacy of the disclosures made in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Key audit matter

Impairment assessment of goodwill

As at 31 December 2023, the Group's goodwill was RMB79,802,000, representing 1.8% of the total assets of the Group.

The Group is required to perform an impairment test for goodwill at least on an annual basis. The impairment test is based on the recoverable amount of the cash-generating unit ("CGU") to which the goodwill is allocated. Management established the impairment assessment model with the involvement of an external independent valuer and prepared the recoverable amount calculation to estimate the future cash flows, taking into account key assumptions, including expected revenue growth rate, budgeted gross margin, terminal growth rate and pre-tax discount rate.

The estimation of the impairment of goodwill was complex and involved significant judgements and estimates, we identified the assessment of the impairment of goodwill as a key audit matter.

Details of the impairment of goodwill are disclosed in notes 2.4, 3 and 17 to the consolidated financial statements.

How our audit addressed the key audit matter

Our audit procedures in relation to the assessment of the impairment of goodwill included, among others, the following:

- We obtained an understanding of and evaluated the relevant controls related to the impairment assessment of goodwill;
- We evaluated management's identification of the CGU to which the goodwill was allocated;
- With the assistance of our internal valuation specialists, we evaluated the appropriateness of management's valuation model by reference to industry norms and valuation techniques and evaluated the appropriateness of key valuation parameters, including the pre-tax discount rate and terminal growth rate by benchmarking market data and comparable companies;
- We evaluated the reasonableness of management's forecasts, assumptions and estimates of future results of the CGUs used in the valuation models by comparing the historical forecast with actual results and obtaining corroborative evidence to support the assumptions used;
- We evaluated the competence, capabilities and objectivity of the external independent valuer engaged by management; and
- We evaluated the adequacy of the disclosures made in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Siu Fung Terence Ho.

Ernst & Young

Certified Public Accountants

Hong Kong

28 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
REVENUE	5	3,297,828	4,860,613
Cost of sales		(1,863,721)	(2,964,448)
Gross profit		1,434,107	1,896,165
Other income and gains	6	61,609	50,811
Selling and marketing expenses		(485,155)	(553,272)
Administrative expenses		(271,015)	(282,262)
Research and development costs		(143,522)	(162,746)
Other expenses	7	(99,622)	(128,440)
Listing expenses		(72,189)	(9,664)
Finance costs	9	(86,316)	(76,824)
Fair value gains on financial liabilities at fair value through profit or loss	29	11,475	87,044
PROFIT BEFORE TAX	8	349,372	820,812
Income tax expense	12	(87,050)	(135,928)
PROFIT FOR THE YEAR		262,322	684,884
Attributable to:			
Owners of the parent		234,885	680,793
Non-controlling interests		27,437	4,091
		262,322	684,884

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of the financial statements of subsidiaries		(7,768)	(26,179)
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		(36,381)	(54,254)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		(44,149)	(80,433)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		218,173	604,451
Attributable to:			
Owners of the parent		190,736	600,360
Non-controlling interests		27,437	4,091
		218,173	604,451
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Expressed in RMB per share)			
Basic	14	0.34	1.04
Diluted	14	0.31	0.96

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	Notes	31 December 2023 RMB'000	31 December 2022 RMB'000
NON-CURRENT ASSETS			
Property and equipment	15	410,987	375,428
Right-of-use assets	16	187,390	218,853
Goodwill	17	79,802	79,802
Other intangible assets	18	151,416	143,709
Deferred tax assets	19	103,971	118,403
Prepayments, deposits and other receivables	22	12,575	12,839
Amounts due from related parties	35	2,474	2,123
Financial assets at fair value through profit or loss	23	1,535	8,104
Pledged deposits	24	300,000	—
Total non-current assets		1,250,150	959,261
CURRENT ASSETS			
Inventories	20	176,593	229,413
Trade and bills receivables	21	1,515,434	1,856,847
Prepayments, deposits and other receivables	22	188,474	127,860
Financial assets at fair value through profit or loss	23	50,837	—
Amounts due from related parties	35	25	227
Pledged deposits	24	412,602	—
Cash and cash equivalents	24	959,423	1,680,625
Total current assets		3,303,388	3,894,972
CURRENT LIABILITIES			
Trade and bills payables	25	742,108	1,062,452
Other payables and accruals	26	755,527	985,104
Contract liabilities	27	34,664	21,060
Interest-bearing bank borrowings	28	95,870	112,792
Profit tax payable		77,790	124,553
Amounts due to related parties	35	1,858	61,071
Lease liabilities	16	49,201	51,400
Total current liabilities		1,757,018	2,418,432
NET CURRENT ASSETS		1,546,370	1,476,540
TOTAL ASSETS LESS CURRENT LIABILITIES		2,796,520	2,435,801

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	Notes	31 December 2023 RMB'000	31 December 2022 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	28	791,647	1,023,329
Lease liabilities	16	153,117	182,455
Deferred tax liabilities	19	23,166	28,502
Convertible redeemable preferred shares	29	—	589,179
Total non-current liabilities		967,930	1,823,465
NET ASSETS			
EQUITY			
Equity attributable to owners of the parent			
Share capital	30	97	86
Reserves	31	1,707,974	510,738
		1,708,071	510,824
Non-controlling interests		120,519	101,512
Total equity		1,828,590	612,336

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2023

	Attributable to owners of the parent								
	Share capital RMB'000 (Note 30)	Capital reserve RMB'000 (Note 31)	Share option/ RSU	Other reserve	Exchange fluctuation reserve	Retained profits	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
			reserve	reserve	reserve	profits			
			RMB'000 (Note 31)	RMB'000 (Note 31)	RMB'000 (Note 31)	RMB'000			
At 1 January 2023	86	612,250	118,707	(554,320)	(72,288)	406,389	510,824	101,512	612,336
Profit for the year	—	—	—	—	—	234,885	234,885	27,437	262,322
Other comprehensive loss for the year:									
Exchange differences on translation of the financial statements of subsidiaries	—	—	—	—	(7,768)	—	(7,768)	—	(7,768)
Exchange differences on translation of the financial statements of the Company	—	—	—	—	(36,381)	—	(36,381)	—	(36,381)
Issue of shares	3	240,265	—	—	—	—	240,268	—	240,268
Share issue expenses	—	(12,175)	—	—	—	—	(12,175)	—	(12,175)
Automatic conversion of convertible redeemable preferred shares upon the Global Offering	8	599,301	—	—	—	—	599,309	—	599,309
Share awards (note 32)	—	—	17,054	—	—	—	17,054	—	17,054
Transfer of share option reserve upon exercise of share options	—	262,789	(87,859)	—	—	—	174,930	—	174,930
Acquisition of non-controlling interests	—	—	—	(12,875)	—	—	(12,875)	225	(12,650)
Capital injection into subsidiaries by non-controlling shareholders	—	—	—	—	—	—	—	2,900	2,900
Dividends declared to non-controlling shareholders	—	—	—	—	—	—	—	(11,555)	(11,555)
At 31 December 2023	97	1,702,430	47,902	(567,195)	(116,437)	641,274	1,708,071	120,519	1,828,590

	Attributable to owners of the parent								
	Share capital RMB'000 (Note 30)	Capital reserve RMB'000 (Note 31)	Share option/ RSU	Other reserve	Exchange fluctuation reserve	Retained profits	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
			reserve	reserve	reserve	profits			
			RMB'000 (Note 31)	RMB'000 (Note 31)	RMB'000 (Note 31)	RMB'000			
At 1 January 2022	86	612,250	103,658	(510,511)	8,145	590,613	804,241	48,606	852,847
Profit for the year	—	—	—	—	—	680,793	680,793	4,091	684,884
Other comprehensive loss for the year:									
Exchange differences on translation of the financial statements of subsidiaries	—	—	—	—	(26,179)	—	(26,179)	—	(26,179)
Exchange differences on translation of the financial statements of the Company	—	—	—	—	(54,254)	—	(54,254)	—	(54,254)
Capital injection into subsidiaries by non-controlling shareholders	—	—	—	—	—	—	—	15,375	15,375
Share awards (note 32)	—	—	15,049	—	—	—	15,049	—	15,049
Acquisition of a subsidiary	—	—	—	—	—	—	—	33,440	33,440
Dividends declared	—	—	—	—	—	(865,017)	(865,017)	—	(865,017)
Put option over non-controlling interests (note 26 (b))	—	—	—	(43,809)	—	—	(43,809)	—	(43,809)
At 31 December 2022	86	612,250	118,707	(554,320)	(72,288)	406,389	510,824	101,512	612,336

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		349,372	820,812
Adjustments for:			
Bank interest income	6	(20,160)	(8,874)
Foreign exchange losses, net	7	8,198	6,743
Finance costs	9	86,316	76,824
Losses on disposal of property and equipment and other intangible assets	7	3,767	3,058
Gains on disposal of items of right-of-use assets	6	—	(6)
Depreciation of property and equipment	15	99,397	129,402
Depreciation of right-of-use assets	16	59,552	59,163
Amortisation of intangible assets	18	8,490	4,853
Impairment losses, net of reversal:			
– Financial assets under the expected credit loss model	7	57,864	111,653
– Inventories	7	15,976	1,421
Share awards	8	17,054	15,049
Fair value gains on convertible redeemable preferred shares	8	(11,475)	(87,044)
Fair value losses/(gains) on derivative financial instruments	6/7	6,165	(7,826)
Fair value gains on put option over non-controlling interests	6	(15,305)	—
Fair value gains on contingent consideration	6	—	(13,337)
Fair value gains on wealth management products	6	(1,252)	—
Transaction costs for wealth management products	7	493	—
Deposits paid for bank overdraft facilities	24	(21,000)	—
		643,452	1,111,891
Decrease/(increase) in inventories		36,844	(115,209)
Decrease/(increase) in trade and bills receivables		283,281	(649,726)
Decrease/(increase) in prepayments, deposits and other receivables		27,315	(32,049)
(Decrease)/increase in trade and bills payables		(378,675)	511,878
(Decrease)/increase in other payables and accruals		(109,964)	167,025
Cash generated from operations		502,253	993,810
Income tax paid		(124,717)	(100,872)
Net cash flows from operating activities		377,536	892,938

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
CASH FLOWS USED IN INVESTING ACTIVITIES			
Interest received		20,160	8,874
Purchase of items of property and equipment		(149,251)	(228,297)
Purchase of other intangible assets		(16,197)	(69,058)
Proceeds from disposal of property and equipment		5,964	3,866
Investment in wealth management products		(50,072)	—
Acquisition of a subsidiary		—	(48,686)
Acquisition of non-controlling interests		(12,650)	—
Consideration paid for acquisition of subsidiaries in prior years		(18,071)	—
Net cash flows used in investing activities		(220,117)	(333,301)
CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES			
New bank loans		655,000	1,098,395
Proceeds from issue of shares		230,656	—
Repayment of bank loans		(910,258)	(155,313)
Deposits paid for bank loans	24	691,602	—
Interest paid		(84,851)	(37,716)
Purchase of derivative financial instruments		—	(13,452)
Lease payments	16	(72,345)	(62,500)
Payment of listing expenses		(823)	(2,576)
Contribution from non-controlling shareholders		2,900	15,375
Advance payments received for subscription of share options	26(a)	6,001	26,526
Payments of dividends	13	—	(865,017)
Payments of dividends to non-controlling shareholders		(4,849)	—
Net cash flows (used in)/from financing activities	32	870,171	3,722
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year	24	1,680,625	1,109,211
Effect of foreign exchange rate changes, net		(8,450)	8,055
CASH AND CASH EQUIVALENTS AT END OF YEAR	24	959,423	1,680,625
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	1,672,025	1,680,625
Time deposits when acquired, pledged as security for long term bank loans	24	(691,602)	—
Time deposits when acquired, pledged as security for bank overdraft facilities	24	(21,000)	—
Cash and cash equivalents as stated in the statement of financial position		959,423	1,680,625
Cash and cash equivalents as stated in the statement of cash flows		959,423	1,680,625

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

1. CORPORATE AND GROUP INFORMATION

ADICON Holdings Limited ("the Company") is a limited liability company incorporated in the Cayman Islands on 20 March 2008. Its registered office address is the 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 year, the Company's subsidiaries were principally engaged in providing medical testing services and the trade of medical testing equipment in the People's Republic of China (the "PRC").

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Date and place of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Adicon International Limited ("Adicon HK")	Hong Kong 7 March 2008	USD1,282.05	100%	—	Investment holding
Manson Grand International Limited ("Manson Grand")	Hong Kong 21 December 2010	USD12.82	100%	—	Trade of medical testing equipment
杭州艾迪康醫學檢驗中心有限公司 Adicon (Hangzhou) Clinical Laboratories Co., Ltd. ("Hangzhou Adicon") ^e	PRC/Mainland China 16 January 2004	RMB45,059,724	—	100%	Medical testing services
合肥艾迪康醫學檢驗實驗室有限公司 Adicon (Hefei) Clinical Laboratories Co., Ltd. ("Hefei Adicon") ^e	PRC/Mainland China 5 June 2006	RMB20,000,000	—	100%	Medical testing services
上海錦測醫學檢驗所有有限公司 Shanghai Jince Clinical Laboratories Co., Ltd. ("Shanghai Adicon") ^e	PRC/Mainland China 2 August 2006	RMB23,021,583	—	100%	Medical testing services
濟南艾迪康醫學檢驗中心有限公司 Adicon (Jinan) Clinical Laboratories Co., Ltd. ("Jinan Adicon") ^e	PRC/Mainland China 19 October 2006	RMB20,000,000	—	100%	Medical testing services
北京艾迪康醫學檢驗實驗室有限公司 Adicon (Beijing) Clinical Laboratories Co., Ltd. ("Beijing Adicon") ^e	PRC/Mainland China 7 December 2007	RMB20,000,000	—	100%	Medical testing services
南昌艾迪康醫學檢驗實驗室有限公司 Adicon (Nanchang) Clinical Laboratories Co., Ltd. ("Nanchang Adicon") ^e	PRC/Mainland China 10 September 2008	RMB5,000,000	—	100%	Medical testing services
福州艾迪康醫學檢驗所有有限公司 Adicon (Fuzhou) Clinical Laboratories Co., Ltd. ("Fuzhou Adicon") ^e	PRC/Mainland China 6 February 2009	RMB20,000,000	—	100%	Medical testing services
吉林艾迪康醫學檢驗實驗室有限公司 Adicon (Jilin) Clinical Laboratories Co., Ltd. ("Jilin Adicon") ^e	PRC/Mainland China 23 April 2009	RMB20,000,000	—	100%	Medical testing services

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Date and place of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
武漢艾迪康醫學檢驗所有限公司 Adicon (Wuhan) Clinical Laboratories Co., Ltd. ("Wuhan Adicon") ^e	PRC/Mainland China 24 November 2009	RMB20,000,000	—	100%	Medical testing services
南京艾迪康醫學檢驗所有限公司 Adicon (Nanjing) Clinical Laboratories Co., Ltd. ("Nanjing Adicon") ^e	PRC/Mainland China 4 December 2009	RMB20,000,000	—	100%	Medical testing services
長沙艾迪康醫學檢驗實驗室有限公司 Adicon (Changsha) Clinical Laboratories Co., Ltd. ("Changsha Adicon") ^e	PRC/Mainland China 19 April 2010	RMB20,000,000	—	100%	Medical testing services
成都艾迪康醫學檢測實驗室有限公司 Adicon (Chengdu) Clinical Laboratories Co., Ltd. ("Chengdu Adicon") ^e	PRC/Mainland China 11 June 2010	RMB20,000,000	—	100%	Medical testing services
沈陽艾迪康醫學檢驗所有限公司 Adicon (Shenyang) Clinical Laboratories Co., Ltd. ("Shenyang Adicon") ^e	PRC/Mainland China 16 March 2011	RMB20,000,000	—	100%	Medical testing services
鄭州艾迪康醫學檢驗所 (普通合夥) Zhengzhou Adicon Clinical Partnership ("Zhengzhou Adicon") ^f	PRC/Mainland China 8 August 2012	RMB20,000,000	—	100%	Medical testing services
廣州艾迪康醫學檢驗所有限公司 Adicon (Guangzhou) Clinical Laboratories Co., Ltd. ("Guangzhou Adicon") ^e	PRC/Mainland China 21 August 2013	RMB20,000,000	—	100%	Medical testing services
天津艾迪康醫學檢驗實驗室有限公司 Adicon (Tianjin) Clinical Laboratories Co., Ltd. ("Tianjin Adicon") ^e	PRC/Mainland China 3 June 2014	RMB30,000,000	—	100%	Medical testing services
雲南艾迪康醫學檢驗所有限公司 Adicon (Yunnan) Clinical Laboratories Co., Ltd. ("Yunnan Adicon") ^e	PRC/Mainland China 2 February 2015	RMB20,000,000	—	100%	Medical testing services

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Date and place of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
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") ^e	PRC/Mainland China 23 May 2016	RMB20,000,000	—	100%	Medical testing services
三明艾迪康醫學檢驗所有限公司 Adicon (Sanming) Clinical Laboratories Co., Ltd. ("Sanming Adicon") ^e	PRC/Mainland China 30 May 2016	RMB20,000,000	—	100%	Medical testing services
重慶艾迪康醫學檢驗實驗室有限公司 Adicon (Chongqing) Clinical Laboratories Co., Ltd. ("Chongqing Adicon") ^e	PRC/Mainland China 21 September 2016	RMB20,000,000	—	100%	Medical testing services
南寧艾迪康醫學檢驗實驗室有限公司 Adicon (Nanning) Clinical Laboratories Co., Ltd. ("Nanning Adicon") ^e	PRC/Mainland China 23 November 2017	RMB20,000,000	—	100%	Medical testing services
青島艾迪康醫學檢驗實驗室有限公司 Qingdao Adicon Clinical Laboratories Co., Ltd. ("Qingdao Adicon") ^e	PRC/Mainland China 13 May 2019	RMB11,666,600	—	60%	Medical testing services
杭州輝圖生物科技有限公司 Hangzhou Huitu Biotechnology Co., Ltd. ("Hangzhou Huitu") ^e	PRC/Mainland China 2 December 2010	RMB7,500,000	—	100%	Trade of medical testing equipment
艾迪肯 (杭州) 生物科技有限公司 Aidiken (Hangzhou) Biotech Co., Ltd. ("Aidiken WFOE") ^d	PRC/Mainland China 18 July 2008	USD21,120,100	—	100%	Investment holding
上海律昂傑生物科技有限公司 Shanghai Lv'angjie BioTech Co., Ltd. ("Shanghai Lv'angjie") ^e	PRC/Mainland China 15 October 2015	RMB1,000,000	—	100%	Trade of medical testing equipment
杭州艾易檢科技有限公司 Hangzhou Aiyijian Technology Co., Ltd. ("Hangzhou Aiyijian") ^e	PRC/Mainland China 8 April 2020	RMB10,000,000	—	100%	Medical technology
黑龍江艾迪康醫學檢驗實驗室有限公司 Heilongjiang Adicon Clinical Laboratories Co., Ltd. ("Heilongjiang Adicon") ^e	PRC/Mainland China 13 January 2020	RMB20,000,000	—	75%	Medical testing services

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Date and place of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
衢州艾迪康醫學檢驗實驗室有限公司 Quzhou Adicon Clinical Laboratories Co., Ltd. ("Quzhou Adicon") ^e	PRC/Mainland China 6 January 2020	RMB20,000,000	—	70%	Medical testing services
深圳艾迪康醫學檢驗實驗室 Shenzhen Adicon Clinical Laboratories Co., Ltd. ("Shenzhen Adicon") ^e	PRC/Mainland China 13 May 2019	RMB13,333,300	—	60%	Medical testing services
廈門國貿艾迪康醫學檢驗實驗室有限公司 Xiamen Guomao Adicon Clinical Laboratories Co., Ltd. ("Xiamen Adicon") ^e	PRC/Mainland China 25 September 2020	RMB30,000,000	—	51%	Medical testing services
上饒艾迪康醫學檢驗實驗室有限公司 Shangrao Adicon Clinical Laboratory Co., Ltd. ("Shangrao Adicon") ^e	PRC/Mainland China 7 December 2020	RMB3,625,000	—	61%	Medical testing services
江西錦測生物科技有限公司 Jiangxi Jince BioTech Co., Ltd ("Jiangxi Jince") ^e	PRC/Mainland China 6 August 2020	RMB8,000,000	—	61%	Trade of medical testing equipment
鄭州艾迪康醫學檢驗實驗室有限公司 Zhengzhou Adicon Clinical Laboratories Co., Ltd. ("Zhengzhou Adicon Ltd") ^e	PRC/Mainland China 22 June 2020	RMB20,000,000	—	100%	Medical testing services
蘇州艾迪康醫學檢驗所有限公司 Suzhou Adicon Clinical Laboratories Co., Ltd. ("Suzhou Adicon") ^e	PRC/Mainland China 3 August 2021	RMB30,000,000	—	51%	Medical testing services
貴州艾迪康醫學檢驗中心有限公司 Guizhou Adicon Clinical Laboratories Center Co., Ltd. ("Guizhou Adicon") ^e	PRC/Mainland China 16 July 2021	RMB15,000,000	—	95%	Medical testing services
溫州艾迪康醫學檢驗實驗室有限公司 Wenzhou Adicon Clinical Laboratories Co., Ltd. ("Wenzhou Adicon") ^e	PRC/Mainland China 29 November 2021	RMB20,000,000	—	100%	Medical testing services
臨沂艾迪康醫學檢驗實驗室有限公司 Linyi Adicon Clinical Laboratories Co., Ltd. ("Linyi Adicon") ^e	PRC/Mainland China 10 November 2021	RMB20,000,000	—	70%	Medical testing services

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Date and place of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
信陽艾迪康醫學檢驗實驗室有限公司 Xinyang Adicon Clinical Laboratories Co., Ltd. ("Xinyang Adicon") ^e	PRC/Mainland China 13 May 2022	RMB15,000,000	—	65%	Medical testing services
石家莊艾迪康醫學檢驗實驗室有限公司 Shijiazhuang Adicon Clinical Laboratories Co., Ltd. ("Shijiazhuang Adicon") ^e	PRC/Mainland China 21 June 2022	RMB20,000,000	—	100%	Medical testing services
河南艾迪康醫學檢驗實驗室有限公司 Henan Adicon Clinical Laboratories Co., Ltd. ("Henan Adicon") ^e	PRC/Mainland China 16 October 2019	RMB20,000,000	—	51%	Medical testing services
紹興艾迪康醫學檢驗實驗室有限公司 Shaoxing Adicon Clinical Laboratories Co., Ltd. ("Shaoxing Adicon") ^{b&e}	PRC/Mainland China 6 March 2023	RMB8,000,000	—	65%	Medical testing services
溫州甌海艾迪康醫學檢驗實驗室 有限公司 Wenzhou Ouhai Adicon Clinical Laboratories Co., Ltd. ("Ouhai Adicon") ^{c&e}	PRC/Mainland China 16 May 2023	RMB10,000,000	—	100%	Medical testing services

- a. The English names of the PRC companies and statutory auditors referred to above in this note represent management's best efforts in translating the Chinese names of those companies as no English names have been registered or are available.
- b. On 6 March 2023, Shaoxing Adicon was established under the laws of the PRC with registered capital of RMB8 million.
- c. On 16 May 2023, Ouhai Adicon was established under the laws of the PRC with registered capital of RMB10 million.
- d. These entities are registered as wholly-foreign-owned enterprises under PRC law.
- e. These entities are registered as limited liability companies under PRC law.
- f. These entities are registered as partnerships under PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, wealth management products, contingent consideration and convertible redeemable preferred shares which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2023. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, any non-controlling interest and the exchange fluctuation reserve; and recognises the fair value of any investment retained and any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 17	<i>Insurance Contracts</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to IAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

The nature and the 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 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has disclosed the material accounting policy information in note 2 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's 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. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.
- (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 adoption of amendments to IAS 12 did not have any material impact on the basic and diluted earnings per share attributable to ordinary equity holders of the parent, other comprehensive income and the consolidated statements of cash flows for the years ended 31 December 2023 and 2022.

- (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. 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.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following revised IFRSs, that have been issued but are not yet effective, in these financial statements. The Group intends to apply these revised IFRSs, if applicable, when they become effective.

Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback</i> ¹
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i> (the "2020 Amendments") ¹
Amendments to IAS 1	<i>Non-current Liabilities with Covenants</i> (the "2022 Amendments") ¹
Amendments to IAS 7 and IFRS 7	<i>Supplier Finance Arrangements</i> ¹
Amendments to IAS 21	<i>Lack of Exchangeability</i> ²

¹ Effective for annual periods beginning on or after 1 January 2024

² Effective for annual periods beginning on or after 1 January 2025

³ No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB. However, the amendments are available for adoption now.

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. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

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 amendments shall be applied retrospectively with early application permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

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. Earlier application of the amendments is permitted. The amendments provide certain transition reliefs regarding comparative information, quantitative information as at the beginning of the annual reporting period and interim disclosures. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 21 specify how an entity shall assess whether a currency is exchangeable into another currency and how it shall estimate a spot exchange rate at a measurement date when exchangeability is lacking. The amendments require disclosures of information that enable users of financial statements to understand the impact of a currency not being exchangeable. Earlier application is permitted. When applying the amendments, an entity cannot restate comparative information. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening balance of retained profits or to the cumulative amount of translation differences accumulated in a separate component of equity, where appropriate, at the date of initial application. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures certain financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, investment properties and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Related parties (Continued)

- (b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; *(If the Group is itself such a plan)* and the sponsoring employers of the post-employment benefit plan;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Office and electronic equipment	5 years
Laboratory equipment	5 years
Motor vehicles	5 years
Leasehold improvements	5-8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. It is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Other intangible assets are amortised on the straight-line basis over the following useful economic lives:

Software	10 years
Patents	10-20 years
Customer relationship	20 years

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Patents and software

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 to 20 years.

Customer relationship

Customer relationship acquired in a business combination and recognised separately from goodwill is initially recognised at its fair value at the acquisition date. It is amortised on the straight-line basis over its estimated useful life of 20 years.

The useful economic life of 10 to 20 years for the patents is based on the anticipated number of years the patents will retire due to more advanced technologies. The useful economic life of 10 years for software is estimated by considering the period of the economic benefits to the Group. The useful economic life of 20 years for customer relationship is based on the anticipated number of years the existing customer of the acquired entities is likely to contribute revenue to the Group.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. At inception or on reassessment of a contract that contains a lease component and non-lease component(s), the Group adopts the practical expedient not to separate non-lease component(s) and to account for the lease component and the associated non-lease component(s) (e.g., property management services for leases of properties) as a single lease component.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee (Continued)

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Properties	2 to 10 years
Equipment	2 to 5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss ("FVTPL").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade and bills receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade and bills receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on the equity investments are also recognised as other income in profit or loss when the right of payment has been established.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade and bills receivables which apply the simplified approach as detailed below.

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Simplified approach

For trade and bills receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the e and bills environment.

For trade and bills receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, convertible redeemable preferred shares, amounts due to related parties, lease liabilities and interest-bearing bank borrowings.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost (trade and other payables, and borrowings)

After initial recognition, trade and other payables, and interest-bearing borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Put option over non-controlling interests

The financial liability for the put option over non-controlling interests is recognised at the present value of the amount payable upon exercise of the put option. On initial recognition, the corresponding debit is made to another component of equity attributable to the parent. All subsequent changes in the carrying amount of the financial liability that result from the remeasurement are recognised in profit or loss attributable to the parent.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and at banks, and short-term highly liquid deposits with a maturity of generally within three months that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value and held for the purpose of meeting short-term cash commitments.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and at banks, and short-term deposits as defined above, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Government grants (Continued)

Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to the statement of profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) *Medical diagnostic testing services*

The Group earns revenue by providing specialised diagnostic testing services to hospitals or individual patient customers based on a written test requisition form. The service period of each specialised diagnostic testing is generally within two to seven business days.

Revenue from specialised diagnostic testing services is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the testing report.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

(b) Sales of medical products

Revenue from the sale of medical products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the medical products to the customer.

Some contracts for the sale of industrial products provide customers with rights of return, giving rise to variable consideration.

(i) Rights of return

Some contracts for the sale of medical products provide customers with rights of return. The rights of return give rise to variable consideration. For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

(c) Testing services for Research&Development ("R&D") projects and others

The Group generally enters into contracts of Contract Research Organisation services ("CRO services") with sponsors of clinical trials, pharmaceutical and medical device companies and research institutes to provide research and clinical trial services with duration ranging from one month to several years.

Revenue from testing services for R&D projects and others is recognised overtime when the Group has an enforceable right to payment for performance completed to date. The progress of research services is measured based on outputs to the satisfaction of related performance obligation of research services (output method). In an output method, revenue is determined by multiplying that percentage of the actual units of output achieved by the total contract value.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Share-based payments

The Company operates a share incentive plan. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments ("equity-settled transactions"). The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 32 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Other employee benefits

Pension scheme

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 5% of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

There is no forfeited contribution for the defined contribution plans as the contributions are fully vested to the employees upon payment.

Housing fund – Mainland China

The Group contributes on a monthly basis to a defined contribution housing fund plan operated by the local municipal government. Contributions to this plan by the Group are expensed as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements. Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Foreign currencies

These financial statements are presented in RMB, which is different from the Company's functional currency, United States dollar ("USD"). As the major revenues and assets of the Group are derived from operations in Mainland China, RMB is chosen as the presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve, except to the extent that the differences are attributable to non-controlling interests. On disposal of a foreign operation, the cumulative amount in the reserve relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2023 was RMB79,802,000 (2022: RMB79,802,000). Further details are given in note 17 to the financial statements.

Provision for expected credit losses on trade and bills receivables

The Group uses a provision matrix to calculate ECLs for trade and bills receivables. 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.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade and bills receivables is disclosed in note 21 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. OPERATING SEGMENT INFORMATION

Geographical information

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 a major customer

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

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

5. REVENUE

An analysis of revenue is as follows:

(i) Disaggregated revenue information

	2023 RMB'000	2022 RMB'000
Revenue from contracts with customers		
Medical diagnostic services	3,297,828	4,860,613
Timing of revenue recognition		
Goods transferred at a point in time	3,272,740	4,833,099
Services transferred over time	25,088	27,514
Total revenue from contracts with customers	3,297,828	4,860,613

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2023 RMB'000	2022 RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of year:	21,060	20,683

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Testing services for R&D projects and others

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

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

6. OTHER INCOME AND GAINS

An analysis of other income and gains, net is as follows:

	2023 RMB'000	2022 RMB'000
Other income and gains		
Bank interest income	20,160	8,874
Government grants - income*	20,022	15,916
Gains on disposal of property, plant and equipment and other intangible assets	—	650
Gains on disposal of items of right-of-use assets, net	—	6
Fair value gains on derivative financial instruments	—	7,826
Fair value gains on contingent consideration	—	13,337
Fair value gains on put option over non-controlling interests	15,305	—
Fair value gains on wealth management products	1,252	—
Others	4,870	4,202
Total	61,609	50,811

* The government grants related to income have been received as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs that are recognised in profit or loss in the period upon actual receipt. There are no unfulfilled conditions or contingencies relating to these grants.

7. OTHER EXPENSES

An analysis of other expenses, net is as follows:

	2023 RMB'000	2022 RMB'000
Other expenses		
Impairment losses, net of reversal		
– Inventories	15,976	1,421
– Financial assets under the ECL model	57,864	111,653
Bank charges	1,786	1,580
Transaction costs for wealth management products	493	—
Foreign exchange losses	8,198	6,743
Losses on disposal of property and equipment and other intangible assets	3,767	2,408
Fair value losses on derivative financial instruments	6,165	—
Donation	1,763	3,523
Others	3,610	1,112
Total	99,622	128,440

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

8. PROFIT BEFORE TAX

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

	2023 RMB'000	2022 RMB'000
Cost of services provided	1,692,871	2,570,710
Cost of inventories sold	170,850	393,738
Depreciation of property and equipment*	99,397	129,402
Depreciation of right-of-use assets*	59,552	59,163
Amortisation of other intangible assets*	8,490	4,853
Fair value gains on convertible redeemable preferred shares	(11,475)	(87,044)
Fair value gains on contingent consideration	—	(13,337)
Fair value gains on put option over non-controlling interests	(15,305)	—
Fair value losses/(gains) on derivative financial instruments	6,165	(7,826)
Fair value gains on wealth management products	(1,252)	—
Research and development costs	143,522	162,746
Auditors' remuneration	8,095	7,192
Listing expenses excluding auditors' remuneration	67,315	9,664
Employee benefit expense*		
(including directors' remuneration as set out in note 10):	975,366	1,206,731
Share awards	17,054	15,049
Salaries and other benefits	775,757	973,201
Pension scheme contributions, social welfare and other welfare	182,555	218,481
Lease payments not included in the measurement of lease liabilities	17,105	13,387
Bank interest income	(20,160)	(8,874)
Finance costs	86,316	76,824
Foreign exchange losses, net	8,198	6,743
Losses on disposal of items of property and equipment and other intangible assets	3,767	1,758
Gains on disposal of items of right-of-use assets, net	—	(6)
Impairment losses, net of reversal:	73,840	113,074
– Financial assets under the ECLs model	57,864	111,653
– Inventories	15,976	1,421

- * The depreciation of property and equipment, the depreciation of right-of-use assets, the amortisation of other intangible assets, and the employee benefit expenses for the year 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.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

9. FINANCE COSTS

An analysis of finance costs is as follows:

	2023 RMB'000	2022 RMB'000
Interest expenses on:		
Bank borrowings	73,597	49,667
Lease liabilities	12,719	13,705
Transaction costs for derivative financial instruments	—	13,452
Total	86,316	76,824

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2023 RMB'000	2022 RMB'000
Fees	274	—
Other emoluments:		
Salaries, allowances and benefits in kind	3,964	2,880
Performance related bonuses	900	2,000
Share-based compensation expenses	461	1,036
Pension scheme contributions	160	137
Subtotal	5,485	6,053
Total	5,759	6,053

During the year, certain directors were granted share awards, in respect of their services to the Group, under the share incentive plan of the Company, further details of which are set out in note 32 to the financial statements. The fair value of such share awards, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount is included in the above directors' and chief executive's remuneration disclosures.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

Executive directors, non-executive directors and the chief executive:

	Notes	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Share- based payment RMB'000	Pension scheme contributions RMB'000	Total remune- ration RMB'000
2023							
Executive directors:							
Mr. Gao Song	(ii)	—	3,964	900	461	160	5,485
Non-executive directors:							
Mr. LIN Jixun	(iii)	—	—	—	—	—	—
Ms. YANG Ling	(iv)	—	—	—	—	—	—
Ms. FENG Janine Junyuan	(v)	—	—	—	—	—	—
Ms. LIM Kooi June	(vi)	—	—	—	—	—	—
Mr. MI Brian Zihou	(vii)	97	—	—	—	—	97
Mr. YEH Richard	(viii)	90	—	—	—	—	90
Mr. ZHANG Wei	(ix)	87	—	—	—	—	87
		274	—	—	—	—	274

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

	Notes	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Share- based payment RMB'000	Pension scheme contributions RMB'000	Total remune- ration RMB'000
2022							
Executive directors:							
Mr. WU Jesse Jen-Wei	(i)	—	—	—	—	—	—
Mr. Gao Song	(ii)	—	2,880	2,000	1,036	137	6,053
		—	2,880	2,000	1,036	137	6,053
Non-executive directors:							
Mr. LIN Jixun	(iii)	—	—	—	—	—	—
Ms. YANG Ling	(iv)	—	—	—	—	—	—
Ms. FENG Janine Junyuan	(v)	—	—	—	—	—	—
Ms. LIM Kooi June	(vi)	—	—	—	—	—	—
Mr. MI Brian Zihou	(vii)	—	—	—	—	—	—
Mr. YEH Richard	(viii)	—	—	—	—	—	—
		—	—	—	—	—	—

Notes:

- (i) Mr. WU Jen-Wei was appointed as a director of the Company on 12 October 2018 and was removed from the list of the directors of the Company on 10 April 2022.
- (ii) Mr. GAO Song was appointed as a director of the Company on 24 November 2021.
- (iii) Mr. LIN Jixun was appointed as a director of the Company on 19 December 2008.
- (iv) Ms. YANG Ling was appointed as a director of the Company on 12 October 2018.
- (v) Ms. FENG Janine Junyuan was appointed as a director of the Company on 12 August 2020.
- (vi) Ms. LIM Kooi June was appointed as a director of the Company on 17 December 2020.
- (vii) Mr. MI Brian Zihou was appointed as a director of the Company on 15 April 2021.
- (viii) Mr. YEH Richard was appointed as a director of the Company on 24 June 2021.
- (ix) Mr. ZHANG Wei was appointed as a director of the Company on 30 June 2023.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included one director (2022: one), details of whose remuneration are set out in note 10 above. Details of the remuneration for the year of the remaining four (2022: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2023 RMB'000	2022 RMB'000
Salaries, allowances and benefits in kind	4,759	6,217
Performance related bonuses	5,033	3,735
Share-based compensation expenses	12,367	5,701
Pension scheme contributions	445	417
Total	22,604	16,070

The number of non-director highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2023	2022
HKD2,000,001 to HKD2,500,000	2	2
HKD3,000,001 to HKD3,500,000	1	1
HKD8,000,001 to HKD8,500,000	—	1
HKD17,000,001 to HKD17,500,000	1	—
Total	4	4

During the year, share options/RSUs were granted to non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 32 to the financial statements. The fair value of such options/RSUs, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

12. INCOME TAX

The Group is subject to income tax on an entity basis on profits 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% which applies to the first HKD2,000,000 of assessable profits, and the remaining assessable profits are 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 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 1 January 2008.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

12. 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	2023	2022
Hangzhou Adicon	1	15%	15%
Shanghai Adicon	1	15%	15%
Wuhan Adicon	1	15%	15%
Hefei Adicon	2	15%	15%
Nanchang Adicon	2	15%	15%
Jinan Adicon	3	15%	15%
Beijing Adicon	3	15%	15%
Fuzhou Adicon	3	15%	15%
Nanjing Adicon	3	15%	15%
Henan Adicon	4	15%	25%
Tianjin Adicon	4	15%	25%
Chengdu Adicon	5	15%	15%
Xi'an Adicon	5	15%	15%
Chongqing Adicon	5	15%	15%
Yunnan Adicon	5	15%	15%
Guizhou Adicon	5/6	20%	15%
Nanning Adicon	6	20%	20%
Quzhou Adicon	6	20%	20%
Linyi Adicon	6	20%	25%
Shijiazhuang Adicon	6	20%	25%
Wenzhou Adicon	6	20%	25%
Sanming Adicon	6	20%	25%
Shaoxing Adicon	6	20%	N/A
Ouhai Adicon	6	20%	N/A
Hangzhou Aiyijian	7	0%	0%

Notes:

- (1) In 2021, Hangzhou Adicon, Shanghai Adicon and Wuhan Adicon were accredited as a High and New Technology Enterprise ("HNTE") and were entitled to the preferential income tax rate of 15% for a period of three years from 2021 to 2023.
- (2) In 2019, Hefei Adicon and Nanchang Adicon were accredited as HNTEs and were entitled to the preferential income tax rate of 15% for a period of three years from 2019 to 2022. Hefei Adicon and Nanchang Adicon subsequently renewed their HNTE qualifications in 2022 and were entitled to the preferential tax rate of 15% from 2022 to 2024.
- (3) In 2020, Beijing Adicon, Jinan Adicon, Fuzhou Adicon, and Nanjing Adicon were accredited as HNTEs and were entitled to the preferential income tax rate of 15% for a period of three years from 2020 to 2023. Beijing Adicon subsequently renewed its HNTE qualification in 2023 and was entitled to the preferential tax rate of 15% from 2023 to 2025. Jinan Adicon, Fuzhou Adicon and Nanjing Adicon renewed their HNTE qualifications in 2023 and were entitled to the preferential tax rate of 15% from 2023 to 2025.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

12. INCOME TAX (Continued)

Mainland China (Continued)

Notes: (Continued)

- (4) In 2023, Henan Adicon and Tianjin Adicon were accredited as an HNTE and was entitled to the preferential income tax rate of 15% for a period of three years from 2023 to 2025.
- (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% in 2022 and 2023. 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 applicable during 2018 to 2030.
- (6) Nanning Adicon and Quzhou Adicon were qualified as small-scaled minimal profit enterprises during 2022 and 2023. Guizhou Adicon, Linyi Adicon, Shijiazhuang Adicon, Wenzhou Adicon, Sanming Adicon, Shaoxing Adicon and Ouhai Adicon were qualified as small-scaled minimal profit enterprises during 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 RMB 3,000,000 may be calculated as 50% and be taxed at the preferential EIT rate of 20%.
- (7) Hangzhou Aiyijian was qualified as an integrated circuit ("IC") manufacturer or an entity engaged in a project encouraged by the State Council during 2022 and 2023. 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 year is analysed as follows:

	2023 RMB'000	2022 RMB'000
Current income tax	77,954	175,122
Deferred income tax	9,096	(39,194)
Total tax charge for the year	87,050	135,928

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

12. INCOME TAX (Continued)

Mainland China (Continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the jurisdictions in which the majority of the Group's subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2023 RMB'000	2022 RMB'000
Profit before tax	349,372	820,812
Tax at the statutory tax rate (25%)	87,343	205,203
Lower tax rates for specific provinces or enacted by local authority	(28,586)	(71,350)
Effect on opening deferred tax assets or liabilities resulting from change in applicable tax rate	(7,759)	(7,212)
Additional deductible allowance for qualified research and development costs	(17,217)	(18,403)
Expenses not deductible for tax	6,621	1,777
Tax losses utilised from previous years	(225)	(6,723)
Tax losses not recognised	51,371	28,489
Effect of withholding tax at 5% (2022:10%) on the distributable profits of the Group's PRC subsidiaries	(4,498)	4,147
Tax charge at the Group's effective rate	87,050	135,928

13. DIVIDENDS

No dividend has been paid or declared by the Company for the year ended 31 December 2023.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

14. 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 year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 690,606,994 (2022: 653,402,129) in issue during the year, as adjusted to reflect the rights issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible redeemable preferred shares for the year. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, 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 calculations of basic and diluted earnings per share are based on:

	2023	2022
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation (RMB'000)	234,885	680,793
Less: Fair value gains on financial liabilities at FVTPL	11,475	—
	223,410	680,793
Ordinary shares ('000)		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	690,607	653,402
Earnings per share (RMB per share)	0.34	1.04
Effect of dilution – weighted average number of ordinary shares:		
Convertible redeemable preferred shares	26,019	52,762
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	716,626	706,164
Diluted earnings per share (RMB per share)	0.31	0.96

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

15. PROPERTY AND EQUIPMENT

	Office and electronic equipment RMB'000	Laboratory equipment RMB'000	Motor vehicles RMB'000	Leasehold improve- ments RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2023						
At 1 January 2023						
Cost	67,341	489,062	15,557	226,735	8,244	806,939
Accumulated depreciation	(35,952)	(304,229)	(9,165)	(82,165)	—	(431,511)
Net carrying amount	<u>31,389</u>	<u>184,833</u>	<u>6,392</u>	<u>144,570</u>	<u>8,244</u>	<u>375,428</u>
At 1 January 2023, net of accumulated depreciation	31,389	184,833	6,392	144,570	8,244	375,428
Additions	33,198	66,093	2,355	9,245	33,796	144,687
Disposals	(779)	(4,321)	(135)	(4,496)	—	(9,731)
Transfers	427	553	—	32,352	(33,332)	—
Depreciation provided during the year	(12,373)	(50,081)	(3,718)	(33,225)	—	(99,397)
At 31 December 2023, net of accumulated depreciation	<u>51,862</u>	<u>197,077</u>	<u>4,894</u>	<u>148,446</u>	<u>8,708</u>	<u>410,987</u>
At 31 December 2023						
Cost	97,985	522,037	16,605	260,600	8,708	905,935
Accumulated depreciation	(46,123)	(324,960)	(11,711)	(112,154)	—	(494,948)
Net carrying amount	<u>51,862</u>	<u>197,077</u>	<u>4,894</u>	<u>148,446</u>	<u>8,708</u>	<u>410,987</u>

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

15. PROPERTY AND EQUIPMENT (Continued)

	Office and electronic equipment RMB'000	Laboratory equipment RMB'000	Motor vehicles RMB'000	Leasehold Improve- ments RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2022						
At 1 January 2022						
Cost	51,475	352,193	12,524	152,775	12,731	581,698
Accumulated depreciation	(26,851)	(218,785)	(7,472)	(62,453)	—	(315,561)
Net carrying amount	<u>24,624</u>	<u>133,408</u>	<u>5,052</u>	<u>90,322</u>	<u>12,731</u>	<u>266,137</u>
At 1 January 2022, net of accumulated depreciation	24,624	133,408	5,052	90,322	12,731	266,137
Additions	16,392	148,594	2,846	23,355	38,474	229,661
Acquisition of a subsidiary	836	5,123	1,436	1,672	6,889	15,956
Disposals	(698)	(5,558)	(218)	(450)	—	(6,924)
Transfers	466	—	—	49,384	(49,850)	—
Depreciation provided during the year	(10,231)	(96,734)	(2,724)	(19,713)	—	(129,402)
At 31 December 2022, net of accumulated depreciation	<u>31,389</u>	<u>184,833</u>	<u>6,392</u>	<u>144,570</u>	<u>8,244</u>	<u>375,428</u>
At 31 December 2022						
Cost	67,341	489,062	15,557	226,735	8,244	806,939
Accumulated depreciation	(35,952)	(304,229)	(9,165)	(82,165)	—	(431,511)
Net carrying amount	<u>31,389</u>	<u>184,833</u>	<u>6,392</u>	<u>144,570</u>	<u>8,244</u>	<u>375,428</u>

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

16. LEASES

The Group as a lessee

The Group has lease contracts for various items of properties and other equipment used in its operations. Leases of properties generally have lease terms between 2 and 10 years. Other equipment generally has lease terms of 12 months or less or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Properties RMB'000	Equipment RMB'000	Total RMB'000
As at 1 January 2022	156,691	16,690	173,381
Additions	91,701	8,043	99,744
Additions as a result of acquisition of a subsidiary	4,079	992	5,071
Revision of a lease term arising from a change in the non-cancellable period of a lease	(180)	—	(180)
Depreciation charge	(49,375)	(9,788)	(59,163)
As at 31 December 2022	202,916	15,937	218,853
As at 1 January 2023	202,916	15,937	218,853
Additions	30,062	4,066	34,128
Revision of a lease term arising from a change in the non-cancellable period of a lease	(6,039)	—	(6,039)
Depreciation charge	(52,499)	(7,053)	(59,552)
As at 31 December 2023	174,440	12,950	187,390

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

16. LEASES (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2023 RMB'000	2022 RMB'000
At the beginning of year	233,855	177,950
New leases	34,128	99,744
Additions as a result of acquisition of a subsidiary	—	5,142
Accretion of interest recognised during the year	12,719	13,705
Payments	(72,345)	(62,500)
Revision of a lease term arising from a change in the non-cancellable period of a lease	(6,039)	(186)
Ending balance	<u>202,318</u>	<u>233,855</u>
Analysed into:		
Current portion	49,201	51,400
Non-current portion	<u>153,117</u>	<u>182,455</u>

A maturity analysis of the lease liabilities for the year is as follows:

	2023 RMB'000	2022 RMB'000
Less than 3 months	15,367	17,113
3 to less than 12 months	33,834	34,287
1 to 3 years	88,525	95,644
Over 3 years	64,592	86,811
Total	<u>202,318</u>	<u>233,855</u>

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

16. LEASES (Continued)

The Group as a lessee (Continued)

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2023 RMB'000	2022 RMB'000
Interest on lease liabilities	12,719	13,705
Depreciation charge of right-of-use assets	59,552	59,163
Expense relating to leases of short-term and low-value assets	17,105	13,387
Revision of a lease term arising from a change in the non-cancellable period of a lease	—	(6)
Total amount recognised in profit or loss	89,376	86,249

(d) The following future cash outflows of the Group are potentially exposed to that are not reflected in the measurement of lease liabilities:

	2023 RMB'000	2022 RMB'000
Future cash outflows for short-term leases	4,932	4,342

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

17. GOODWILL

	RMB'000
Cost at 1 January 2022, net of accumulated impairment	25,691
Acquisition of a subsidiary	54,111
Impairment during the year	—
Net carrying amount at 31 December 2022	<u>79,802</u>
As at 31 December 2022:	
Cost	79,802
Accumulated impairment	—
Net carrying amount	<u>79,802</u>
Cost at 1 January 2023, net of accumulated impairment	79,802
Impairment during the year	—
Net carrying amount at 31 December 2023	<u>79,802</u>
As at 31 December 2023:	
Cost	79,802
Accumulated impairment	—
Net carrying amount	<u>79,802</u>

Impairment testing of goodwill

Goodwill of RMB25,691,000 was generated from the acquisition of Shangrao Adicon and Jiangxi Jince on 28 February 2021 and goodwill of RMB54,111,000 was generated from the acquisition of Henan Adicon on 31 May 2022.

The cash flows generated from Shangrao Adicon and Jiangxi Jince are expected to benefit from the synergies of each other, for impairment testing, but are independent from those of the other subsidiaries of the Company. Therefore, goodwill is monitored by the management of the Company at the level of the group of cash-generating unit ("CGU") including Shangrao Adicon and Jiangxi Jince. The goodwill of Henan Adicon CGU is monitored independently.

The recoverable amount of each CGU has been determined based on value-in-use calculations using pre-tax cash flow projections, which are based on financial budgets approved by the management of the Company covering a 5-year period.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

17. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Shangrao Adicon and Jiangxi Jince CGU		
	As at 31 December 2023	As at 31 December 2022
Revenue (% compound growth rate)	5%	5%
Terminal growth rate	2%	2%
Pre-tax discount rate	18%	19%

Henan Adicon CGU		
	As at 31 December 2023	As at 31 December 2022
Revenue (% compound growth rate)	2%	10%
Terminal growth rate	2%	2%
Pre-tax discount rate	21%	22%

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill for each CGU as at 31 December 2022 and 31 December 2023.

Revenue — The basis used to determine the budgeted revenue is based on management's expectation of market development.

Terminal growth rate — The forecasted terminal growth rate is based on management's expectations and does not exceed the long-term average growth rate for the industry relevant to the CGUs.

The pre-tax discount rate used is before tax and reflects specific risks relating to the CGUs.

Based on the result of impairment assessment, there was no impairment as at 31 December 2023.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

17. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Sensitivity to changes in key assumptions:

The management of the Company has performed sensitivity test by decreasing 1% of the expected revenue, decreasing 1% of the terminal growth rate or increasing 1% of the pre-tax discount rate, with all other assumptions held constant. The impacts on the amount by which each CGU's recoverable amount exceeds its carrying amount (headroom) are as follows:

Shangrao Adicon and Jiangxi Jince CGU		
	As at 31 December 2023 RMB'000	As at 31 December 2022 RMB'000
Headroom	12,708	33,104
Impact by decreasing the expected revenue	(1,233)	(1,421)
Impact by decreasing the terminal growth rate	(4,377)	(5,161)
Impact by increasing the pre-tax discount rate	(5,367)	(7,901)

Henan Adicon CGU		
	As at 31 December 2023 RMB'000	As at 31 December 2022 RMB'000
Headroom	32,944	24,093
Impact by decreasing the expected revenue	(3,632)	(4,902)
Impact by decreasing the terminal growth rate	(5,690)	(5,822)
Impact by increasing the pre-tax discount rate	(13,073)	(9,138)

Considering there was still sufficient headroom based on the assessment, the management of the Company believes that a reasonably possible change in the above key parameters would not cause the carrying amount of the group of CGUs to exceed its recoverable amount as at 31 December 2022 and 31 December 2023.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

18. OTHER INTANGIBLE ASSETS

	Patents RMB'000	Software RMB'000	Customer relationship RMB'000	Total RMB'000
At 1 January 2023:				
Cost	68,433	9,256	77,000	154,689
Accumulated amortisation	(83)	(7,526)	(3,371)	(10,980)
Net carrying amount	68,350	1,730	73,629	143,709
Cost at 1 January 2023, net of accumulated amortisation	68,350	1,730	73,629	143,709
Additions	13,247	2,950	—	16,197
Amortisation provided during the year	(3,348)	(1,292)	(3,850)	(8,490)
At 31 December 2023	78,249	3,388	69,779	151,416
At 31 December 2023:				
Cost	81,680	12,206	77,000	170,886
Accumulated amortisation	(3,431)	(8,818)	(7,221)	(19,470)
Net carrying amount	78,249	3,388	69,779	151,416
At 1 January 2022:				
Cost	89	8,542	18,000	26,631
Accumulated amortisation	(79)	(5,298)	(750)	(6,127)
Net carrying amount	10	3,244	17,250	20,504
Cost at 1 January 2022, net of accumulated amortisation	10	3,244	17,250	20,504
Additions	68,344	714	—	69,058
Acquisition of a subsidiary	—	—	59,000	59,000
Amortisation provided during the year	(4)	(2,228)	(2,621)	(4,853)
At 31 December 2022	68,350	1,730	73,629	143,709
At 31 December 2022:				
Cost	68,433	9,256	77,000	154,689
Accumulated amortisation	(83)	(7,526)	(3,371)	(10,980)
Net carrying amount	68,350	1,730	73,629	143,709

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

19. DEFERRED TAX

The movements in deferred tax assets during the year is as follows:

Deferred tax assets

	Losses available for offsetting against future taxable profits RMB'000	Accrued expenses RMB'000	Lease liabilities RMB'000	Impairment of assets RMB'000	Total RMB'000
At 1 January 2022	16,888	32,346	22,814	23,424	95,472
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 12)	12,443	16,245	6,615	14,760	50,063
At 31 December 2022 and 1 January 2023	29,331	48,591	29,429	38,184	145,535
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 12)	(21,149)	(3,482)	(114)	7,849	(16,896)
At 31 December 2023	8,182	45,109	29,315	46,033	128,639

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

19. DEFERRED TAX (Continued)

Deferred tax liabilities

	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Right of use assets Leases RMB'000	Accrual for withholding tax RMB'000	Total RMB'000
At 1 January 2022	4,313	20,850	5,947	31,110
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 12)	14,095	6,282	4,147	24,524
At 31 December 2022 and 1 January 2023	18,408	27,132	10,094	55,634
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 12)	(963)	(2,339)	(4,498)	(7,800)
At 31 December 2023	17,445	24,793	5,596	47,834

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2023 RMB'000	2022 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	103,971	118,403
Net deferred tax liabilities recognised in the consolidated statement of financial position	23,166	28,502

The Group has tax losses arising in Mainland China of RMB286,380,000 (2022: RMB26,932,000) that will expire in one to ten years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in certain subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

19. DEFERRED TAX (Continued)

Deferred tax liabilities (Continued)

Deferred tax assets have not been recognised in respect of the following items:

	2023 RMB'000	2022 RMB'000
Tax losses	72,583	10,007
Deductible temporary differences	29,157	31,337
Total	101,740	41,344

The Group is liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. The applicable rate is 5% (2022: 10%) for the Group.

20. INVENTORIES

	2023 RMB'000	2022 RMB'000
Reagents	107,282	137,936
Finished goods	68,269	69,827
Consumables	1,042	21,650
Total	176,593	229,413

21. TRADE AND BILLS RECEIVABLES

	2023 RMB'000	2022 RMB'000
Trade receivables	1,751,633	2,043,901
Bills receivable	6,174	3,253
	1,757,807	2,047,154
Allowance for expected credit losses	(242,373)	(190,307)
Total	1,515,434	1,856,847

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.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

21. TRADE AND BILLS RECEIVABLES (Continued)

An ageing analysis of trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2023 RMB'000	2022 RMB'000
1 month to 6 months	1,074,252	1,367,546
6 months to 1 year	259,156	360,641
Subtotal - within 1 year	1,333,408	1,728,187
1 year to 2 years	157,116	119,950
2 years to 3 years	24,177	8,543
Over 3 years	733	167
Total	1,515,434	1,856,847

The movements in the loss allowance for impairment of trade and bills receivables are as follows:

	2023 RMB'000	2022 RMB'000
At beginning of year	190,307	75,075
Acquisition of a subsidiary	—	4,640
Impairment losses	58,120	111,510
Amount written off as uncollectible	(6,054)	(918)
At end of year	242,373	190,307

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

21. TRADE AND BILLS RECEIVABLES (Continued)

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 31 December 2023			
	Expected loss		
	Amount RMB'000	rate %	Impairment RMB'000
1 month to 6 months	1,099,652		25,400
6 months to 1 year	301,788		42,632
Subtotal - within 1 year	1,401,440	4.85	68,032
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
Total	1,757,807		242,373

As at 31 December 2022			
	Expected loss		
	Amount RMB'000	rate %	Impairment RMB'000
1 month to 6 months	1,426,611		59,076
6 months to 1 year	376,255		15,603
Subtotal - within 1 year	1,802,866	4.14	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
Total	2,047,154		190,307

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2023 RMB'000	2022 RMB'000
Deposits		20,277	20,920
– current		7,397	7,515
– non-current	(a)	12,880	13,405
Prepayments	(b)	43,877	54,613
Advanced payment for investment	(c)	18,200	18,200
Advance lease payments for short-term leases		6,325	10,610
Subscription receivable for exercising share options (note 32)	(d)	90,105	—
Value-added tax recoverable		18,625	14,300
Deferred listing expenses		—	12,682
Others		3,945	9,940
Provision for impairment		(305)	(566)
Total		201,049	140,699

Notes:

- (a) The amount represents deposits for leases of properties with over one-year lease terms and deposits with suppliers.
- (b) The amount represents prepayments for reagents and consumables.
- (c) As at 31 December 2023, the balance amounting to approximately RMB18,200,000 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 if certain conditions were not satisfied within twelve months.
- (d) As at 31 December 2023, the balance amounting to approximately RMB90,105,000 represents the subscription receivables due from executive directors, senior management and employees under share incentive plans to settle the share options and RSUs 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.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

Analysed into:

	2023 RMB'000	2022 RMB'000
Current portion	188,474	127,860
Non-current portion - Deposits	12,575	12,839
Total	201,049	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 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, 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.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	2023 RMB'000	2022 RMB'000
Non-current			
Derivatives - interest rate cap contracts	(a)	1,535	8,104
Current			
Wealth management products	(b)	50,837	—

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. During the year ended 31 December 2023, the Group recorded RMB6,165,000 fair value loss (2022: RMB7,826,000 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.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2023 RMB'000	2022 RMB'000
Cash and bank balances	1,672,025	1,680,625
Less: Pledged time deposits:		
Pledged for long term bank loans*	(691,602)	—
Pledged for bank overdraft facilities**	(21,000)	—
Cash and cash equivalents	<u>959,423</u>	<u>1,680,625</u>

	2023 RMB'000	2022 RMB'000
Denominated in:		
RMB	899,447	1,503,584
USD	58,737	176,112
HKD	1,239	929
Cash and cash equivalents	<u>959,423</u>	<u>1,680,625</u>

* It represents pledged deposits in commercial banks partly to secure a five-year loan of RMB600,000,000 with 上海浦東發展銀行 (Shanghai Pudong Development Bank) and partly to secure the interest payables of a five-year loan with 中國信託商業銀行 (China Trust Commercial Bank). None of these deposits are either past due or impaired. The pledged bank deposits will be released upon the repayment of the above loan.

** It represents pledged deposits for Group's overdraft facilities. The Group's overdraft facilities amounting to RMB50,000,000 as of 31 December 2023 (2022: Nil) are secured by the pledge of the Group's certain time deposits amounting to RMB21,000,000 as of 31 December 2023 (2022: Nil).

*** The RMB is not freely convertible into other currencies under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

25. TRADE AND BILLS PAYABLES

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

	2023 RMB'000	2022 RMB'000
Within 1 year	667,679	1,010,329
1 to 2 years	65,836	50,484
2 to 3 years	7,016	379
Over 3 years	1,577	1,260
Total	742,108	1,062,452

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

26. OTHER PAYABLES AND ACCRUALS

	Notes	2023 RMB'000	2022 RMB'000
Payroll payables		313,959	438,351
Accruals		141,104	172,162
Accrued listing expenses		29,596	11,011
Deferred revenue		1,822	—
Other payables		90,554	83,978
Advance payments received for subscription of share options	(a)	22,059	97,036
Payables arising from acquisitions	(b)	99,306	132,682
Amounts due to non-controlling shareholders	(c)	57,127	49,884
Total		755,527	985,104

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

26. OTHER PAYABLES AND ACCRUALS (Continued)

Notes:

- (a) The Company and its subsidiaries received RMB6,001,000 (2022: RMB26,526,000) in 2023 from certain domestic senior management and mid-level management of the Group for subscribing vested shares under the Scheme (as defined in note 32 to the financial statements). At 31 December 2023, 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) In connection with the acquisition of Shangrao Adicon and Jiangxi Jince, the Group acquired 61% equity interests during 2021 at a total consideration of RMB45,726,000 in cash, which has been fully paid by 31 December 2023 (2022: RMB18,071,000 unpaid). 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 as at 31 December 2023 (2022: RMB57,465,000), 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 as of 31 December 2023 (2022: 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 as at 31 December 2023 (2022: 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 into 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 amounting to RMB57,127,000 (2022: RMB49,884,000) represents the revenue collected by the Group on behalf of the then shareholders as at 31 December 2023.

27. CONTRACT LIABILITIES

	2023 RMB'000	2022 RMB'000
Amounts received in advance of delivery of services and equipment	34,664	21,060

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

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

28. INTEREST-BEARING BANK BORROWINGS

As at 31 December 2023

	Effective interest rate per annum %	Maturity	RMB'000
Current			
Bank loans - unsecured (g)	3.90	2024	9,780
Bank loans - unsecured (h)	3.40	2024	10,000
Bank loans - unsecured (i)	3.00	2024	10,000
Bank loans - unsecured (j)	2.85	2024	10,000
Bank loans - unsecured (k)	3.70	2024	20,000
Bank loans - unsecured (l)	3.50	2024	1,000
Bank loans - unsecured (m)	3.55	2024	4,000
Bank loans - secured (n)	2.90	2024	31,090
Total			95,870

As at 31 December 2023

	Effective interest rate per annum %	Maturity	RMB'000
Non-current			
Bank loans - unsecured (f)	7.67	2025-2027	221,647
Bank loans - secured (n)	2.90	2025-2028	570,000
Total			791,647

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

28. INTEREST-BEARING BANK BORROWINGS (Continued)

As at 31 December 2022			
	Effective interest rate per annum %	Maturity	RMB'000
Current			
Bank loans - unsecured (a)	3.70	2023	10,500
Bank loans - unsecured (b)	3.70	2023	10,000
Bank loans - unsecured (c)	3.70	2023	10,000
Bank loans - unsecured (d)	3.80	2023	9,178
Bank loans - unsecured (e)	3.70	2023	30,000
Bank loans - unsecured (f)	6.76	2023	43,114
Total			112,792

As at 31 December 2022			
	Effective interest rate per annum %	Maturity	RMB'000
Non-current			
Bank loans - unsecured (f)	6.76	2024-2027	1,013,349
Bank loans - unsecured (g)	3.90	2024	9,980
Total			1,023,329

Analysed into:

	2023 RMB'000	2022 RMB'000
Repayable:		
Within one year	95,870	112,792
In the second year	60,000	41,321
In the third to fifth years	731,647	982,008
Total	887,517	1,136,121

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

28. INTEREST-BEARING BANK BORROWINGS (Continued)

Notes:

- a. On 28 July 2022, Hangzhou Adicon, a subsidiary of the Group, entered into a one-year unsecured facility agreement of RMB10,500,000 with 中國農業銀行 (Agriculture Bank of China). Hangzhou Adicon had repaid the loan on 27 July 2023.
- b. On 22 June 2022, Hangzhou Adicon, a subsidiary of the Group, entered into a one-year unsecured facility agreement of RMB10,000,000 with 中國銀行 (Bank of China). Hangzhou Adicon had repaid the loan on 21 June 2023.
- c. On 25 June 2022, Hangzhou Adicon, a subsidiary of the Group, entered into a one-year unsecured facility agreement of RMB10,000,000 with 中國工商銀行 (Industrial and Commercial Bank of China). Hangzhou Adicon had repaid the loan on 24 June 2023.
- d. On 8 June 2022, Hangzhou Adicon, a subsidiary of the Group, entered into a one-year unsecured facility agreement of RMB9,000,000 with 中國招商銀行 (China Merchants Bank). Hangzhou Adicon had repaid the loan on 7 June 2023.
- e. On 31 March 2022, Hangzhou Huitu, a subsidiary of the Group, entered into a one-year unsecured facility agreement of RMB30,000,000 with 中國工商銀行 (Industrial and Commercial Bank of China). Hangzhou Adicon had repaid the loan on 30 March 2023.
- f. On 18 July 2022, Adicon HK, a subsidiary of the Group, entered into a loan facility agreement of up to USD150,000,000 in aggregate with 中國信託商業銀行 (China Trust Commercial Bank). In July 2022, the Group fully drew down the credit facility for USD50,000,000 each from China Trust Commercial Bank, 凱基銀行 (KGI Bank), and 永豐銀行 (Bank SinoPac) as the mandated lead arrangers and original lenders, respectively. These loans bear an interest rate of Secured Overnight Financing Rate ("SOFR") plus a margin of 2.75% per annum with repayment schedules of USD4,500,000 in 2023, USD4,500,000 in 2024, USD9,000,000 in 2025, USD12,000,000 in 2026 and USD120,000,000 in 2027. The Group made an early repayment of USD108,706,000 in 2023 and the remaining amount of USD31,294,000 was fully repaid in January 2024.
- g. On 6 July 2022, Hangzhou Adicon, a subsidiary of the Group, entered into a two-year unsecured facility agreement of RMB9,980,000 with 中國民生銀行 (China Minsheng Bank). The Group made an early repayment of RMB200,000 in 2023.
- h. On 15 September 2023, Hangzhou Adicon, a subsidiary of the Group, entered into a one-year unsecured facility agreement of RMB10,000,000 with 中國工商銀行 (Industrial and Commercial Bank of China).
- i. On 19 October 2023, Hangzhou Adicon, a subsidiary of the Group, entered into a one-year unsecured facility agreement of RMB10,000,000 with 中國銀行 (Bank of China).
- j. On 28 August 2023, Hangzhou Adicon, a subsidiary of the Group, entered into a one-year unsecured facility agreement of RMB10,000,000 with 中國招商銀行 (China Merchants Bank).
- k. On 20 June 2023, Hangzhou Huitu, a subsidiary of the Group, entered into a one-year unsecured facility agreement of RMB20,000,000 with 中國農業銀行 (Agriculture Bank of China).
- l. On 27 June 2023, Hangzhou Huitu, a subsidiary of the Group, entered into a one-year unsecured facility agreement of RMB1,000,000 with 中國工商銀行 (Industrial and Commercial Bank of China).
- m. On 29 June 2023, Henan Adicon, a subsidiary of the Group, entered into a one-year unsecured facility agreement of RMB4,000,000 with 中原銀行 (Zhongyuan Bank).
- n. On 18 December 2023, Adicon HK, a subsidiary of the Group, entered into five-year secured facility agreements of RMB600,000,000 with 上海浦東發展銀行 (Shanghai Pudong Development Bank). The loan bears an interest rate of 2.9% per annum with repayment schedules of RMB30,000,000 in 2024, RMB60,000,000 in 2025, RMB90,000,000 in 2026, RMB180,000,000 in 2027 and RMB240,000,000 in 2028. The loan is secured by the pledge of the deposits amounting to RMB670,000,000, details of which are given in note 24 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

29. CONVERTIBLE REDEEMABLE PREFERRED SHARES

Pursuant to the Preferred Share Purchase Agreement dated 17 December 2020, the Company agreed to issue and allot 8,154,073,619 (40,770,368 as adjusted after the resolution to consolidate 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 Preferred Share Purchase Agreements 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 summarised 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 issue 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, recapitalisation, a merger, joint venture, exchange of shares or other sale of the shares of the Company, capital reorganisation 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 Prices 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 a public offering on the Main Board of The Stock Exchange of Hong Kong Limited, the Shanghai Stock Exchange, the New York Stock Exchange or the Nasdaq National Market, or another internationally recognised 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.

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For The Year Ended 31 December 2023

29. CONVERTIBLE REDEEMABLE PREFERRED SHARES (Continued)

The key terms of the Preferred Shares are summarised as follows: (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") (the 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) 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, recapitalisations or similar transactions) (the "Redemption Price").

(c) Presentation and classification

The Group and the Company have designated the Preferred Shares as a 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. 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 would have no obligation to pay the Redemption Price by 31 December 2023. As such, the Preferred Shares were classified as non-current liabilities as at 31 December 2022.

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For The Year Ended 31 December 2023

29. CONVERTIBLE REDEEMABLE PREFERRED SHARES (Continued)

The key terms of the Preferred Shares are summarised as follows: (Continued)

(c) Presentation and classification (Continued)

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

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 31 December 2022 are as follows:

	At 31 December 2022
Risk-free interest rate	4.73%
Discount for lack of marketability ("DLOM")	5.00%
Volatility	31.79%

The Group estimated the risk-free interest rate based on the yield of the United States Treasury Strips denominated in USD with a maturity life equal to the expected terms for a 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.

30. SHARE CAPITAL

	2023 RMB'000	2022 RMB'000
Issued and fully paid: 727,354,791 (2022: 653,402,129) ordinary shares	<u>97</u>	<u>86</u>

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

30. SHARE CAPITAL (Continued)

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

	Number of shares in issue	Share capital RMB'000
At 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 a)	17,288,500	2
Automatic conversion of Convertible Preferred Shares upon Global Offering (Note 29)	52,761,653	8
Shares issued upon partial exercise of the Over-allotment Option (Note b)	3,902,509	1
At 31 December 2023	727,354,791	97

Notes:

- a. On 30 June 2023, the Company issued a total of 17,288,500 ordinary shares of USD0.00002 each at the price of HKD12.32 per share by means of the Global Offering.
- b. On 26 July 2023, the Company issued a total of 3,902,509 ordinary shares of USD0.00002 each at the price of HKD12.32 per share by means of partial exercise of the over-allotment option.

31. RESERVES

The amounts of the Group's reserves and the movements therein are presented in the consolidated statements of changes in equity of the Group.

(i) Capital reserve

The capital reserve represents the difference between the par value of the shares issued and the consideration received.

(ii) Other reserve

Other reserve of the Group represents the difference between the aggregate of the net assets of the non-controlling interests acquired and the consideration paid by the Group for the acquisition of non-controlling interests, as well as the put option over non-controlling interests.

(iii) Share option/RSU reserve

The share option/RSU reserve of the Group represents the fair value of equity-settled share-based payments granted and exercised in 2022 and 2023, with the debit entry to reflect the exercise/vest of share option/RSU..

(iv) Exchange fluctuation reserve

The exchange fluctuation reserve represents exchange differences arising from the translation of the financial statements of group companies whose functional currencies are different from the Group's presentation currency.

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For The Year Ended 31 December 2023

32. SHARE INCENTIVE PLANS

Share incentive plans for senior executives and senior management

In July 2019, the board of directors of the Company passed a resolution to adopt share incentive plans for senior executives 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 year ended 31 December 2023, the Company granted share options and restricted share units ("RSUs") to eligible senior executives and senior management of the Group to subscribe up to 101,171,226 underlying shares of the Company. Set out below are the details of the specific grant of share-based awards as adjusted after the Share Consolidation:

Grantee	Date of grant	Type	Number of underlying shares granted '000	Weighted average exercise/subscription price USD per share	Vesting period
Employees	10 July 2019 ~ 15 March 2022	Share options	18,326	0.76	30 June 2020 ~ 31 March 2024
Executive directors and a member of senior management	25 February 2020 ~ 1 April 2023	Share options	70,272	0.87	30 June 2020 ~ 31 March 2024
Executive directors and senior management	24 November 2021~ 9 February 2022	RSUs	12,573	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 either i) as to 25% of the total number of options 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 anniversaries of the vesting commencement date, or ii) as 100% of the total number of the options or RSUs granted shall vest immediately after the grant 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 depending on the financial performance targets including total sales, sales by specified categories and the net profit target achieved by the Group during the vesting period. The vesting conditions for a member of senior management also include market capitalisation targets upon completion of IPO and acquisition of business.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

32. SHARE INCENTIVE PLANS (Continued)

Share incentive plans for senior executives and senior management (Continued)

The following share options were outstanding under the Employee Incentive Plans during the reporting period. The number of options and exercise prices presented below are adjusted after the Share Consolidation.

	At 31 December 2023		At 31 December 2022	
	Weighted average exercise price USD per share	Number of share options '000	Weighted average exercise price USD per share	Number of share options '000
At 1 January	0.7104	18,799	0.7177	27,029
Granted during the year	1.6163	12,134	1.4949	1,490
Forfeited during the year	0.4446	(3,528)	1.4944	(52)
Exercised during the year	0.4809	(2,187)	0.8475	(9,668)
At 31 December	1.1237	25,218	0.7104	18,799

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

32. SHARE INCENTIVE PLANS (Continued)

Share incentive plans for senior executives and senior management (Continued)

For the fair value of equity-settled share options granted during the year, the Black-Scholes option pricing model was used, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Date of Grant	2023	2022
Dividend yield	0%	0%
Expected volatility	29.39%-32.29%	39.47%
Risk-free interest rate	4.23%-4.47%	0.87%
Expected life of options (year)	0.25-1.00	0.04
Weighted average share option price (USD per share), as adjusted after the Share Consolidation	0.09-0.26	0.08

The expected life of the share options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The following RSUs were outstanding under the Employee Incentive Plans during the reporting period. The number of RSUs and subscription price presented below are adjusted after the Share Consolidation.

	2023 Number of RSUs '000	2022 Number of RSUs '000
At the beginning of the year	12,200	12,300
Granted during the year	—	172
Forfeited during the year	(2,270)	—
Vested during the year	(3,000)	(272)
At the end of the year	6,930	12,200

The fair value of the share options/RSUs granted during year was USD1,409,079 (2022: USD134,815), and the Group recognised share-based payment expenses of RMB17,054,000 (2022: RMB15,049,000) during the year ended 31 December 2023.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB34,128,000 (2022: RMB99,744,000) and RMB34,128,000 (2022: RMB99,744,000), respectively, in respect of lease arrangements for properties and equipment.

During the year, the Group had a non-cash revision of a lease term from a change in the non-cancellable period of a lease to right-of-use assets and lease liabilities of RMB6,039,000 (2022: RMB180,000) and RMB6,039,000 (2022: RMB186,000), respectively, in respect of lease arrangements for properties and equipment.

During the year, the Group had non-cash additions to share option reserve of RMB17,054,000 (2022: RMB15,049,000), in respect of share-based payment arrangements.

During the year, the Group had non-cash deductions of RMB10,118,000 (2022: additions of RMB730,000) in other payables due to the accrual of listing expenses.

(b) Changes in liabilities arising from financing activities

	Bank loans RMB'000	Lease liabilities RMB'000	Accrued listing expenses in other payables RMB'000	Convertible redeemable preferred shares RMB'000	Dividend payables to non-controlling shareholders RMB'000	Advance payments received for subscription of share options/ RSUs RMB'000
At 31 December 2022 and 1 January 2023	1,136,121	233,855	11,011	589,179	—	97,036
Interest expense	73,597	12,719	—	—	—	—
Additions	655,000	34,128	—	—	11,555	6,001
Disposal	—	(6,039)	—	—	—	—
Payment						
– Changes from financing cash flows	(910,258)	(72,345)	(823)	—	(4,849)	—
– Changes from operating cash flows	—	—	(42,663)	—	—	—
Interest paid	(84,851)	—	—	—	—	—
Decrease in deferred listing expenses	—	—	(10,118)	—	—	—
Listing expenses	—	—	72,189	—	—	—
Fair value gain on convertible redeemable preferred shares	—	—	—	(11,475)	—	—
Automatic conversion of convertible redeemable preferred shares upon the Global Offering	—	—	—	(599,309)	—	—
Exercise of share options/RSUs	—	—	—	—	—	(84,826)
Exchange adjustment	17,908	—	—	21,605	—	3,848
At 31 December 2023	887,517	202,318	29,596	—	6,706	22,059

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Changes in liabilities arising from financing activities (Continued)

	Bank loans	Lease liabilities	Accrued listing expenses in other payables	Convertible redeemable preferred shares	Advance payments received for subscription of share options/ RSUs	Dividends payable
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2022	139,931	177,950	35,370	621,870	70,510	—
Interest expense	29,253	13,705	—	—	—	—
Additions	1,098,395	104,886	—	—	26,526	—
Disposal	—	(186)	—	—	—	—
Payment						
– Changes from financing cash flows	(155,313)	(62,500)	(2,576)	—	—	(865,017)
– Changes from operating cash flows	—	—	(32,177)	—	—	—
Interest paid	(17,301)	—	—	—	—	—
Increase in deferred listing expenses	—	—	730	—	—	—
Listing expenses	—	—	9,664	—	—	—
Fair value gain on convertible redeemable preferred shares	—	—	—	(87,044)	—	—
Exchange adjustment	41,156	—	—	54,353	—	—
Dividends declared	—	—	—	—	—	865,017
At 31 December 2022	1,136,121	233,855	11,011	589,179	97,036	-

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

34. COMMITMENTS

The Group had the following contractual commitments at the end of the reporting period:

	2023 RMB'000	2022 RMB'000
Contracted, but not provided for acquisition of property and equipment	14,546	15,418

35. RELATED PARTY TRANSACTIONS

(a) Name and relationship of related parties

Name	Note	Relationship
艾康生物技術(杭州)有限公司 ACON Biotech (Hangzhou) Company Limited ("ACON")	(i)	Controlled by a shareholder
艾健醫療器械(杭州)有限公司 AJON Medical Device (Hangzhou) Co. Ltd. ("AJON")	(i)	Controlled by a shareholder

Notes:

- (i) An entity controlled by Mr. LIN Jixun, one of the founders and a non-executive director of the Company. Mr. LIN Jixun is the brother of Mr. LIN Feng.

(b) Transactions with related parties

The following transactions were carried out with related parties:

	2023 RMB'000	2022 RMB'000
Sales to		
ACON	96	117
Purchase from		
ACON	25,390	78,915
Rent from		
AJON	9,179	4,239

The directors of the Company are of the opinion that the above sales to the related party and purchase from the related party were conducted in the ordinary course of business and on arm's length commercial terms.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

35. 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 31 December 2022 and 2023.

	2023 RMB'000	2022 RMB'000
<i>Due from related parties</i>		
Trade receivables (trade in nature)		
ACON	24	12
Other receivables and prepayments (trade in nature)		
ACON	49	191
AJON	2,426	2,147
	2,475	2,338
Total amounts due from related parties	2,499	2,350
Analysed as:		
Current	25	227
Non-current	2,474	2,123
	2,499	2,350
<i>Due to related parties</i>		
Trade payables (trade in nature)		
ACON	1,505	59,836
Other payables (trade in nature)		
AJON	282	1,163
ACON	71	72
	353	1,235
Total amounts due to related parties	1,858	61,071

The Group's balances due from related parties are unsecured, interest-free and repayable on demand.

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For The Year Ended 31 December 2023

35. RELATED PARTY TRANSACTIONS (Continued)

(d) Compensation of key management personnel of the Group:

	2023 RMB'000	2022 RMB'000
Salaries, allowances and benefits in kind	6,078	4,898
Performance related bonuses	1,950	2,673
Share-based compensation expenses	12,828	6,669
Pension scheme contributions	176	153
Total compensation paid to key management personnel	21,032	14,393

Further details of directors' and chief executive's emoluments are included in note 10 to the financial statements.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	2023 RMB'000	2022 RMB'000
Financial assets at FVTPL:		
Derivatives – interest rate cap contracts	1,535	8,104
Wealth management products	50,837	—
	52,372	8,104
Financial assets at amortised cost:		
Trade and bills receivables	1,515,434	1,856,847
Due from related parties	2,499	2,350
Financial assets included in prepayments, other receivables and other assets	24,222	30,860
Pledged deposits	712,602	—
Cash and bank balances	959,423	1,680,625
Total	3,214,180	3,570,682

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For The Year Ended 31 December 2023

36. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

	2023 RMB'000	2022 RMB'000
Financial liabilities at FVTPL:		
Convertible redeemable preferred shares	—	589,179
Financial liabilities included in other payables	13,337	27,055
Total	13,337	616,234
Financial liabilities at amortised cost:		
Trade and bills payables	742,108	1,062,452
Amounts due to related parties	1,858	61,071
Financial liabilities included in other payables	239,925	318,746
Interest-bearing bank borrowings	887,517	1,136,121
Lease liabilities	202,318	233,855
Total	2,073,726	2,812,245

37. 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:

	2023		2022	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Financial assets				
Derivatives – interest rate cap contracts	1,535	1,535	8,104	8,104
Wealth management products	50,837	50,837	—	—
Pledged deposits, non-current portion	300,000	300,000	—	—
Total	352,372	352,372	8,104	8,104
Financial liabilities				
Contingent consideration	13,337	13,337	27,055	27,055
Interest-bearing bank borrowings	887,517	887,517	1,136,121	1,136,121
Convertible redeemable preferred shares	—	—	589,179	589,179
Total	900,854	900,854	1,752,355	1,752,355

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For The Year Ended 31 December 2023

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

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade and bills receivables, trade and bills 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.

The Group's finance department headed by the finance controller is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual 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 pledged deposits, 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 and other borrowings as at 31 December 2023 were assessed to be insignificant. The fair value of the convertible redeemable preferred shares measured at FVTPL is estimated using the Black-Scholes option pricing model.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with AAA credit ratings. Derivative financial instruments, including forward currency contracts, foreign currency swaps and interest rate swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts, foreign currency swaps and interest rate swaps are the same as their fair values.

As at 31 December 2023, the mark-to-market value of the derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Below is a summary of the valuation technique to the valuation of financial instruments as at 31 December 2023 and 2022:

Valuation technique	
Derivatives - interest rate cap contracts	DCF model and Black-Scholes option pricing model
Wealth management products	Discounted cash flows - Future cash flows estimated based on the expected return discounted at a rate that reflects the risk of underlying assets

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

	Valuation technique	Significant unobservable inputs	Range	Sensitivity of fair value to the input
Contingent consideration	DCF model	Discount rate	3.8% (2022: 3.8%)	1% increase/decrease in discount rate while holding all other variables constant would decrease/increase the fair value of contingent consideration by RMB61,000/RMB62,000 (2022: RMB184,000/RMB180,000).

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Fair value hierarchy

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

Assets and liabilities measured at fair value:

As at 31 December 2023

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Financial assets				
Derivatives - interest rate cap contracts	—	1,535	—	1,535
Wealth management products	—	50,837	—	50,837
Total	—	52,372	—	52,372
Financial liabilities				
Contingent consideration	—	—	13,337	13,337

As at 31 December 2022

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) 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
Total	—	—	616,234	616,234

During the year, there were 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 (2022: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

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

Fair value hierarchy (Continued)

Assets and liabilities for which fair values are disclosed:

As at 31 December 2023

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Assets				
Pledged deposits, non-current portion	—	300,000	—	300,000
Liabilities				
Interest-bearing bank borrowings	—	887,517	—	887,517

As at 31 December 2022

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Liabilities				
Interest-bearing bank borrowings	—	1,136,121	—	1,136,121

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For The Year Ended 31 December 2023

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, other interest-bearing loans, and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors of the Company review and agree policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies.

In addition, the Group has currency exposures from its interest-bearing bank borrowings.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD and HKD foreign exchange, with all other variables held constant, of the Group's profit before tax.

	2023 RMB'000	2022 RMB'000
RMB/USD		
Strengthened by 5%	(14,696)	5,685
Weakened by 5%	14,696	(5,685)
RMB/HKD		
Strengthened by 5%	61	66
Weakened by 5%	(61)	(66)

Credit risk

An impairment analysis was performed at 31 December 2023 and 2022 using a provision matrix to measure expected credit losses. The provision rates are based on ageing for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on ageing information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2023 and 2022. The amounts presented are gross carrying amounts for financial assets.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

As at 31 December 2023

	12-month ECLs		Lifetime ECLs		Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade and bills receivables*	—	—	—	1,757,807	1,757,807
Financial assets included in prepayments, deposits and other receivables					
– Normal**	24,222	—	—	—	24,222
– Doubtful**	—	—	—	—	—
Amounts due from related parties	2,499	—	—	—	2,499
Pledged deposits					
– Not yet past due	712,602	—	—	—	712,602
Cash and cash equivalents	959,423	—	—	—	959,423
Total	1,698,746	—	—	1,757,807	3,456,553

As at 31 December 2022

	12-month ECLs		Lifetime ECLs		Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade and bills receivables*	—	—	—	2,047,154	2,047,154
Financial assets included in prepayments, deposits and other receivables					
– Normal**	30,860	—	—	—	30,860
– Doubtful**	—	—	—	—	—
Amounts due from related parties	2,350	—	—	—	2,350
Cash and cash equivalents	1,680,625	—	—	—	1,680,625
Total	1,713,835	—	—	2,047,154	3,760,989

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

- * For trade and bills receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 21 to the financial statements.
- ** The credit quality of the financial assets included in prepayments, deposits other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the debtor;
- a breach of contract such as a default or past due event;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation.

The Group has established a policy to perform an assessment, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Management makes periodic collective assessments for financial assets included in prepayments, deposits and other receivables as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The Group recognised allowance for financial assets other than trade and bills receivables based on 12-month ECLs and adjusts for forward-looking macroeconomic data. For trade and bills receivables to which the Group applies the simplified approach for impairment based on lifetime ECLs.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of internally generated cash flows from operations and bank borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	2023					Total RMB'000
	On demand RMB'000	Less than 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	
Trade and bills payables	—	742,108	—	—	—	742,108
Financial liabilities included in other payables and accruals	239,925	—	—	—	—	239,925
Interest-bearing bank borrowings	—	95,870	75,225	762,750	—	933,845
Lease liabilities	—	49,201	61,643	91,911	35,336	238,091
Total	239,925	887,179	136,868	854,661	35,336	2,153,969

	2022					Total RMB'000
	On demand RMB'000	Less than 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	
Trade and bills payables	—	1,062,452	—	—	—	1,062,452
Financial liabilities included in other payables and accruals	318,746	—	—	—	—	318,746
Interest-bearing bank borrowings	—	112,792	117,558	1,069,767	—	1,300,117
Lease liabilities	—	51,400	70,283	108,642	29,655	259,980
Convertible redeemable preferred shares	—	—	514,138	—	—	514,138
Total	318,746	1,226,644	701,979	1,178,409	29,655	3,455,433

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2023 and 31 December 2022.

The asset-liability ratios as at the end of the reporting periods were as follows:

	2023 RMB'000	2022 RMB'000
Total assets	4,553,538	4,854,233
Total liabilities	2,724,948	4,241,897
Asset-liability ratio (Note)	60%	87%

Note: The asset-liability ratio is calculated by dividing total liabilities by total assets and multiplying the product by 100%.

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2023 RMB'000	2022 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	326,696	307,039
Total non-current assets	326,696	307,039
CURRENT ASSETS		
Prepayments, deposits and other receivables	90,105	1,692
Amounts due from related parties	7,795	9,928
Cash and cash equivalents	53,562	125,642
Total current assets	151,462	137,262
CURRENT LIABILITIES		
Other payables and accruals	23,218	89,136
Amounts due to related parties	547,426	838,891
Total current liabilities	570,644	928,027
NET CURRENT LIABILITIES	(419,182)	(790,765)
TOTAL ASSETS LESS CURRENT LIABILITIES	(92,486)	(483,726)
NON-CURRENT LIABILITIES		
Convertible redeemable preferred shares	—	589,179
Net liabilities	(92,486)	(1,072,905)
EQUITY		
Share capital	97	86
Reserves (Note)	(92,583)	(1,072,991)
Total deficit in equity	(92,486)	(1,072,905)

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 December 2023

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Capital reserve RMB'000	Share option/ RSU reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2022	225,064	103,658	(53)	(579,979)	(251,310)
Profit for the year	—	—	—	82,541	82,541
Dividend declared	—	—	—	(865,017)	(865,017)
Recognition of share-based payments	—	15,049	—	—	15,049
Exchange differences related to foreign operations	—	—	(54,254)	—	(54,254)
At 31 December 2022 and 1 January 2023	225,064	118,707	(54,307)	(1,362,455)	(1,072,991)
Loss for the year	—	—	—	(2,586)	(2,586)
Recognition of share-based payments	—	17,054	—	—	17,054
Transfer of share option reserve upon exercise of share options	262,789	(87,859)	—	—	174,930
Exchange differences related to foreign operations	—	—	(36,381)	—	(36,381)
Issue of shares	240,265	—	—	—	240,265
Share issue expenses	(12,175)	—	—	—	(12,175)
Automatic conversion of convertible redeemable preferred shares upon the Global Offering	599,301	—	—	—	599,301
At 31 December 2023	1,315,244	47,902	(90,688)	(1,365,041)	(92,583)

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2024.