固生堂

GUSHENGTANG HOLDINGS LIMITED
固生堂控股有限公司

（根據開曼群島法律註冊成立的有限公司）
(Incorporated under the laws of the Cayman Islands with limited liability)

股份代號 Stock Code: 2273

Annual Report
2022

Contents

Corporate Information

DIRECTORS

Executive Director

Mr. Tu Zhiliang (涂志亮) *(Chairman)*

Non-executive Directors

Mr. Jiang Xiaodong (蔣曉冬)
Mr. Huang Jingsheng
Mr. Xu Yongjiu (徐永久)
Mr. Liu Kanghua (劉康華)
Mr. Gao Jian (高建)

Independent Non-executive Directors

Ms. Jin Xu (金旭)
Mr. Li Tie (李鐵)
Mr. Wu Taibing (吳太兵)

AUDIT COMMITTEE

Mr. Li Tie (李鐵) *(Chairperson)*
Mr. Jiang Xiaodong (蔣曉冬)
Mr. Wu Taibing (吳太兵)

REMUNERATION COMMITTEE

Ms. Jin Xu (金旭) *(Chairperson)*
Mr. Li Tie (李鐵)
Mr. Huang Jingsheng

NOMINATION COMMITTEE

Mr. Tu Zhiliang (涂志亮) *(Chairperson)*
Ms. Jin Xu (金旭)
Mr. Wu Taibing (吳太兵)

JOINT COMPANY SECRETARIES

Ms. Xie Xiaoping (謝小平)
Ms. Ho Yin Kwan (何燕群)

AUTHORIZED REPRESENTATIVES

Mr. Tu Zhiliang (涂志亮)
Ms. Ho Yin Kwan (何燕群)

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COMPLIANCE ADVISER

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STOCK CODE

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COMPANY'S WEBSITE

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Key Financial and Operational Data

FINANCIAL HIGHLIGHTS

	Year ended December 31			
	2022	2021	Changes	
	(RMB'000, except for percentage)			
Revenue	**1,624,561**	1,372,099	252,462	18.4%
Gross profit	**499,536**	620,304	(120,768)	(19.5%)
Profit/(loss) before tax	**198,709**	(518,022)	716,731	(138.4%)
Profit/(loss) for the year	**183,551**	(506,886)	690,437	(136.2%)
Adjusted net profit[1]	**200,806**	156,719	44,087	28.1%
Basic earnings/(loss) per share (RMB)	**0.80**	(4.38)	5.18	(118.3%)
Diluted earnings/(loss) per share (RMB)	**0.77**	(4.38)	5.15	(117.6%)
Profitability ratio				
Gross margin	**30.8%**	45.2%	N/A	(14.4%)
Net Profit/(loss) ratio	**11.3%**	(36.9%)	N/A	48.2%
Adjusted net profit ratio[2]	**12.4%**	11.4%	N/A	1.0%

(1) Adjustments to profit/loss for the year ended December 31, 2022 and 2021 include: (i) equity-settled share-based payment of RMB17.3 million and RMB171.4 million in 2022 and 2021, respectively, in relation to the share options granted under the Pre-IPO Share Option Plan as defined in the prospectus of the Company dated November 30, 2021; (ii) fair value change of financial liabilities at fair value through profit or loss in connection with the convertible redeemable preferred shares and the convertible bonds of the Company of RMB419.5 million in 2021; (iii) non-recurring expenses which mainly represented the legal and professional fees and miscellaneous expenses of RMB72.7 million in 2021 related to the Group's non-operating activities such as listing and group reorganization.

(2) Adjusted net profit margin is calculated based on adjusted net profit divided by revenue.

Chairman's Statement

Dear Shareholders,

On behalf of the Board of GUSHENGTANG HOLDINGS LIMITED, I am honored to present the annual report of the Group for the year ended December 31, 2022.

Since its establishment in 2010, Gushengtang TCM has been developing and accumulating experience for 12 years, thus establishing an online and offline primary medical service network covering more than 300 cities across the country. As of December 31, 2022, the Group had served nearly 13 million people in total, with over 2.9 million people in 2022, further consolidating its position as the largest TCM chain service provider in China. Gushengtang achieved satisfying results in 2022, with its revenue reaching RMB1.62 billion, representing a year-on-year increase of 18.4%, and its adjusted net profit amounting to RMB200 million, representing a year-on-year increase of 28.1%.

I. BUSINESS MODEL, OPERATION PHILOSOPHY, ORIGINAL INTENTION AND ACHIEVEMENT OF THE GROUP

Adhering to the belief of "Conscience Physician, Reliable Medicine", we have created an ever improving and benefiting business model

Most of TCM physicians in Gushengtang were physicians stationed in class III grade A hospitals, who are difficult to make an appointment with, busy with outpatient visits and highly acknowledged by patients. Also, their medical skills and ethics have been highly acclaimed. Gushengtang established a medication guarantee mechanism for the Group by selecting high-quality TCM raw materials and inviting domestic authoritative TCM raw materials verification experts, to verify our TCM raw materials regularly. According to the characteristics of each kind of TCM raw materials, the place of origin and the using practice in various regions, only TCM raw materials with significant efficacy and meeting national regulations were selected for the sake of strictly controlling the quality of the TCM raw materials of Gushengtang.

Core business philosophy of "Good Physician, Good Medicine and Good Service" and "Perseverance, Persistence, Consistency" have contributed to the steady increase in service volume

The average spending per outpatient visit of Gushengtang for the preceding 3 years was approximately RMB518, RMB513 and RMB552 respectively, which did not change significantly. Our revenue growth was mainly attributable to the growth in service volume, the increase in number of members and the increase in the proportion of members' spending. In 2022, the patient return rate of Gushengtang reached 64.0%, the number of members was 203,108, the annual return rate of patients was approximately 86.4%, and approximately 40% of spending offline was made by our members. We launched our membership service system in 2019. The average revenue per member user was almost 2 times of that of non-member user. Armed with refined services and operation, we provided users with all round and full life-cycle TCM healthcare services featuring comprehensive care and support in respect of physical and mental health and built a harmonious physician-patient relationship with "Perseverance, Persistence, Consistency".

Implementation of national major project for TCM development to realize a sizable and brand-oriented clinic chain of hall of reputable TCM physicians based on grass-roots

In October 2019, the Central Committee of the Communist Party of China and the State Council issued the "Opinions on Promoting the Inheritance, Innovation and Development of Traditional Chinese Medicine (《關於促進中醫藥傳承創新發展的意見》)", setting a clear direction for the inheritance, innovation and development of the TCM industry in the new era. According to the "Several Policies and Measures on Accelerating the Featured Development of Traditional Chinese Medicine (《關於加快中醫藥特色發展的若干政策措施》)" issued by the General Office of the State Council in February 2021 and the "Development Plan for Traditional Chinese Medicine under the 14th Five-Year Plan (《「十四五」中醫藥發展規劃》)" issued by the General Office of the State Council in March 2022, a number of detailed policies and measures were proposed to promote the development of the TCM industry, to clearly state the strengthening of the establishment of the TCM service system and of the "flagship" primary medical healthcare institutions. It was also proposed to establish the hall of famous physicians, to encourage and support experienced social sectors to establish the hall of reputable TCM physician for chain operation. With reference to the requirements of branding, quality, regulation and standardization, a number of halls of reputable TCM physicians at different levels would be planned and established to create a scalable, replicable and sustainable model of exemplary operation of the hall of reputable TCM physician. The "Notice on Printing and Distributing the Administrative Measures for Medical Treatment Partnership Systems (Trial) (《關於印發醫療聯合體管理辦法(試行)的通知》)" issued by the National Health Commission and the National Administration of Traditional Chinese Medicine, which came into effect on August 1, 2020, explicitly encouraged medical healthcare institutions organized by the social sector to participate in the Medical Treatment Partnership System (the "**MTPS**") on a voluntary basis. The "14th Five-Year Plan for National Economic and Social Development of the People's Republic of China" and the "Outline of Long-Range Objectives Through the Year 2035 (《中華人民共和國國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要》)" issued on March 11, 2021 required "implementing regional registration of physicians and promoting multi-institution practice of physicians."

The "Law on the Promotion of Basic Medical Care and Health of the People's Republic of China", which came into effect on June 1, 2020, encouraged medical healthcare institutions organized by the social sector to work with the MTPS so as to participate in the medical service cooperation mechanism, support and regulate medical healthcare institutions organized by the social sector and cooperate with governmental medical healthcare institutions to, among others, operate various types of medical healthcare businesses, to develop academic studies and to facilitate the training of talents. The "Law on Medical Practitioners of the People's Republic of China", which came into effect on March 1, 2022, also encouraged physicians to regularly provide medical healthcare services to medical healthcare institutions below the county level, whereas the main practicing institutions should support and facilitate the provision of services. Physicians practicing at medical healthcare institutions within the MTPS were not required to go through the relevant procedures for changing registration.

The national policies and laws and regulations mentioned above explicitly encouraged medical healthcare institutions organized by the social sector to make high-quality medical resources available to the grassroots level through the market-oriented mechanism in a well-organized way by working with the MTPS, allowing multi-site practice of physicians and creating a model operation mode featuring the hall of famous physicians.

As a leading provider of primary TCM services, Gushengtang was the actual practitioner of the above national policies. 48 of our offline medical institutions covered 14 cities, thereby creating branded, chained, collectivized and standardized halls of reputable TCM physicians, providing users with first-class medical environment and first-class TCM services. Over 25,000 physicians provided TCM services through our online and offline service network. Under the major background of hierarchical diagnosis and treatment, we truly realized the market-oriented approach through technical means to make high-quality medical resources available to the grassroots level so as to cover a wider population in a well-organized way. Meanwhile, we attached great importance to the academic inheritance of TCM, and were committed to training and providing more outstanding TCM talents to the society through, among others, the establishment of inheritance workshops for famous TCM physicians.

Cooperation with reputable Class III Grade A hospitals for MTPS to facilitate the development of high-caliber clinical specialties. Differentiated development with Class III Grade A hospitals to form complementary.

The "Notice on Further Improving Key Works for the Construction of Hierarchical Diagnosis and Treatment System (《關於進一步做好分級診療制度建設有關重點工作的通知》)" issued by the National Health Commission and the State Administration of Traditional Chinese Medicine in August 2018 stated that medical institutions established by the social sector should be included in the MTPS and eligible medical institutions organized by the social sector could also lead the establishment of the MTPS.

Gushengtang actively took the lead in establishing the MTPS for modern TCM diagnosis and treatment. In 2022, we have entered into strategic cooperation agreements with multiple Class III Grade A hospitals for detailed work in the joint establishment of the innovative MTPS. The effort contributed in the establishment of the MTPS was evidenced by the realization of high-quality medical resources facilitated by our extensive medical network, which gradually improved the imbalance of TCM resources allocation across the country and enabled all walks of life to enjoy reliable and better TCM medical resources in a more convenient way through our platform.

Exploring its own physician training system to address difficulties in promotion of professional titles of grassroots physicians

As a leader in the TCM service industry, Gushengtang attaches great importance to the cultivation of TCM talents and has built a talent cultivation system with three echelons: academic leaders (national medical experts, national and provincial and municipal well-known TCM physicians), backbone physicians (full-time and community physicians) and young physicians (with master's and doctoral graduates). Gushengtang builds the academic highland of traditional Chinese medicine by cooperating with national medical experts, national and provincial and municipal well-known Chinese medicine physicians, and sets up inheritance studios surrounding TCM experts, which provides its own physicians with high-quality teachers comparable to those from public hospitals, leads academic construction, and meets the academic improvement needs of its own physicians; introduces grassroots physicians with good working experience as backbone to improve academic level and effectiveness under the guidance of famous physicians, and completes more services through information technology and efficient operation and management capabilities to ensure the quality of services, so as to meet the requirements of their title promotion-related assessment; continues to recruit master's and doctoral graduates from TCM universities to provide them with a platform for clinical learning and practice, and young physicians are to improve their clinical practice capabilities while learning from famous physicians and serving patients, and gradually become backbone physicians.

The "Guidance on Deepening the Reform of the Title System for Health Professionals and Technicians" ("Guidance") (《關於深化衛生專業技術人員職稱制度改革的指導意見》) jointly issued by the Ministry of Human Resources and Social Security, the National Health Commission and the National Administration of Traditional Chinese Medicine on August 4, 2022 aims to deploy the reform of the title system for health professionals and technicians. The Guidance makes it clear that the reform will be implemented by improving the grassroots evaluation criteria, improving the evaluation methods, and encouraging the flow of talents to remote or the front areas. It is noted that significant changes occur in the reform system of the titles of health professionals and technicians, especially the further relaxation of other evaluation conditions of the titles of grassroots personnel, focusing on the evaluation of the capacity and level of primary medical services.

As a leading provider of primary TCM services, Gushengtang has an advantage in assessing the titles of senior and middle-level physicians, which can meet the requirements of service quantity required for title promotion, as well as cultivates physicians with good skills through the inheritance of famous physicians and plays a role in assessment and guidance by famous physicians. In 2022, many of physicians in Gushengtang were promoted to the titles of chief physician and associate chief physician, further enhancing its capability to acquire high-quality physician resources and train its own physicians.

Response to COVID-19 Pandemic

In 2022, the COVID-19 pandemic situation was still challenging and complicated, and our offline medical institutions in Guangzhou, Shenzhen, Shanghai and Beijing and other regions covered by our medical network were affected by the pandemic. We established a relatively comprehensive and rapid response mechanism with different response measures for the impact of the pandemic at different extents, so as to continue to provide medical services to users notwithstanding the strict epidemic prevention measures. Firstly, benefiting from our OMO business model, we were able to recommend patients to switch to online diagnosis for medical treatment when our offline medical institutions were temporarily closed due to the pandemic and to establish online medical consultation habits for experts and patients, so as to adapt to the possible normalization of lockdown and control, thus ensuring uninterrupted TMC diagnosis and treatment services, meeting users' medical needs and compensating the decline in revenue of outlets resulted from the pandemic through the increase in revenue from online diagnosis and treatment. Secondly, the Group was able to actively explore and seek opportunities for offline mergers and acquisitions of offline medical institutions during the pandemic. In addition, during the period of pandemic prevention and control, the Group could strengthen its scientific research capabilities and build a one-stop comprehensive medical service platform for R&D. Given the low turnover rate and the increase in idle time of TCM physicians, it could be a good opportunity to cooperate with TCM physicians to encourage physicians' consultation, follow-up consultation, video consultation and use of online platforms.

Since December 2022, the number of COVID-19 infections has surged due to the relaxation of COVID-19 control measures in various parts of China, which has caused some impacts on our business. We actively responded to the national policy of treating COVID-19 infections with traditional Chinese medicine and launched COVID-19 outpatient services and online COVID-19 rehabilitation business in a timely manner, which has achieved good results. As we all know, many patients will have complications such as cough, fatigue and other symptoms after recovering from COVID-19 infection. As traditional Chinese medicine has advantages in treating the sequelae of COVID-19, we have launched COVID-19 rehabilitation treatment business and are currently serving the majority of patients.

Build a digital operation and compliance management and control system and strengthen the establishment of talent stratum

Offline medical institutions have been our main operating carriers and the important service scenarios for our experts and patients. With the rapid expansion of our overall business scale, we invested a considerable amount of resources in digital operation and compliance control in 2022:

(1) We have further refined a digital frontline staff system at offline medical institutions to strengthen the in-depth connection between offline medical institutions and patients and to improve user experience through the display of information. At the same time, the digital frontline staff system could be used as a management tool to strengthen real-time communication and feedback with patients so as to improve the return rate and outpatient volume of outlets, realize digital management of outlets and achieve the goal of empowering our businesses.

(2) We have continuously improved the CRM (Customer Relationship Management) system for the medical end, forming a synergy between the medical end and the development and operation of physicians and medical teams. With the establishment of the medical CRM system, the operation and management of the medical team were subject to digital statistics and analysis, thereby improving the operational efficiency of the medical team.

(3) We have further reinforced the construction of the intelligent review party compliance platform in which the logic of medical insurance compliance was embedded and carried out compliance management through the application of information.

(4) We set up a closed-ended ERP system for the entire business process to further realize the Company's digital operation management, and further improved the business management efficiency through the whole-process system management of supply-sales-inventory and accounting.

In 2022, we continue to set up management committees for each segment of the Group to further enhance our refined management. We selected outstanding and key personnel from business partners as chief members of the management committees. The management committees went into details of the Company's businesses, and implemented refined management in user services, services of experts, control on medical insurance compliance and purchase-sales-inventory management of supply chains. At the same time, the management committees also assisted us in building the user service system featuring "Customer First, Service Prioritized, Quality Assurance" by supervising the processes of various business segments of the Group, thereby improving customer service experience. During the process, the Company has been able to refine its business management on one hand and to train high-quality talents on the other hand, so as to retain talents for the rapid development of the Company in the future.

Leverage its own advantages to take social responsibilities actively

In 2022, given the COVID-19 pandemic spreading across the country, Gushengtang took the lead to cooperate with governmental departments at all levels to join the fight against the pandemic. With the support of medical resources and supply chains of the platform of Gushengtang, we arranged more than 1,000 medical personnel for works related to pandemic prevention and assisted in nucleic acid screening tests for more than 300,000 people across the country.

In addition, the Company held irregular free medical consultation activities in various cities for the inheritance and promotion of TCM culture.

II. FUTURE BUSINESS OUTLOOK

In view of the estimation that the TCM market will maintain a relatively high growth rate in the future and the insufficient supply of high-quality medical resources at the moment, the general public's demand for TCM services is increasing. We plan to ensure high-quality and rapid growth in 2023 through internal growth and external expansion in the following aspects, so as to meet the needs of patients and further promote high-quality medical resources to the grassroots level:

1. The Group will develop OMO business by complying with the national policy of encouraging Internet plus TCM services so as to improve the Internet diagnosis and treatment system and to connect with the medical insurance system, so that patients can enjoy TCM services anytime anywhere;

2. The Group will further strengthen the physician partner program and stabilize our cooperation with physicians through the partnership mechanism. We will strengthen the strategy regarding the inheritance workshop for famous TCM physicians and implement the "apprenticeship" mode of the TCM industry. Besides, the Group will inherit the excellent experience and academic achievements of famous TCM physicians, and train in-house physicians to further increase the proportion of income from them;

3. The Group will strengthen the cooperation with the MTPS and further increase the number of public hospitals and TCM universities in cooperation so as to tap the potential of cooperation with the MTPS and to enable reputable physicians to penetrate into the grassroots level in an orderly manner;

4. The Group will increase its investment in R&D, establish a "Common prescriptions — In-hospital preparations — Medicines" system", commercialize the treatment pathways and protocols for the top five diseases and launch TCM food product as consumer product. Taking the characteristics of TCM as the core, the Group will adhere to the principle of TCM treatment to provide the general public with easy-to-use TCM services with stable efficacy;

5. The Group will continuously expand its membership system and explore new membership service contents and modes. In light of the national policy of encouraging the provision of TCM services, the Group will also develop family physician services by actively providing TCM family physician services;

6. The Group will implement high-quality and high-growth expansion strategies according to the needs of business development and will take a more active role in business expansion, including the establishment of more outlets in cities where we are operating and the exploration of new markets in other cities;

7. The Group will further strengthen the supervision on, and the digitalization of, supply chains. The Company will improve the quality of TCM medicines by taking advantages of our supply chains, improve its operational efficiency with its capability in digitization and standardization, and prevent clinical medical risks and strictly observe the compliance requirements through the self-developed "HIS" system.

In the future, we will continue to adhere to the belief of "Conscience Physician, Reliable Medicine" and the core business philosophy of "Good Physician, Good Medicine and Good Service" and "Perseverance, Persistence, Consistency" and keep striving to become the first choice for TCM physicians, the first choice for people to have TCM treatment and the first choice for people who intend to join the TCM industry. Our development strategy will continue to be closely connected with national policies. As a primary chain medical institution featuring TCM, we will continue to practice the Company's business philosophy, inherit and develop the TCM industry, and provide high-quality TCM services for the users.

Looking forward, we will implement the national regulations and policies that encourage the development of TCM in a more efficient manner, give full play to our advantages as an industry leader, maintain the leading position in the industry in terms of revenue growth and make due contributions to solve the problem of "Difficulties in Having Medical Treatment and Unaffordable Medical Treatment" for the general public.

III. CONCLUSION

Finally, on behalf of the Board, I would like to express my sincere gratitude and blessing to all patients and investors for their continuous trust and support, and also present my heartfelt appreciation to all staff of Gushengtang for their relentless effort and invaluable contribution. "Continuous efforts make long term success". We hope to cooperate with governmental departments, cooperative units, experts, professors, users, employees, partners and Shareholders to facilitate the development of the TCM industry, so that TCM, the treasure of Chinese culture, can inherit and innovate, and establish cultural confidence, for the sake of spreading the charm of TCM throughout the country and all over the world.

Armed with the belief of "Conscience Physician, Reliable Medicine", we are committed to serving the health of the people with solid commitment of developing TCM.

Tu Zhiliang
Chairman

March 17, 2023

Management Discussion and Analysis

BUSINESS REVIEW

As a TCM healthcare service provider in China, we provide customers with a comprehensive range of TCM healthcare services and products through our offline medical institutions and online healthcare platforms. For the year ended December 31, 2022, we continued to focus on primary care and adhere to our core value of better serving our customers with "conscientious physicians, reliable pharmaceuticals (良心醫, 放心藥)." Our comprehensive healthcare solutions that cover the whole process of disease diagnosis and treatment and healthcare management have the following key characteristics:

Integration of offline medical institutions and online healthcare platforms

With the rapid development of internet technology, more and more TCM healthcare service providers in China are integrating offline medical institutions and online healthcare platforms to solve the pain points of conventional TCM diagnosis and treatment, such as limited customer outreach, unbalanced physician resources among different regions, and inconvenience of follow-up visits and long-term healthcare management of customers. Since we launched online appointment, follow-up consultation, diagnosis and prescription services on our official WeChat account in 2018, we have been capable of providing both offline and online healthcare solutions through our medical service network. We believe we are one of the first TCM healthcare service providers to utilize online healthcare platforms and effectively connect offline medical service network with online platforms and are thus well positioned to benefit from favorable government policies encouraging the development of online healthcare services. On the one hand, the development of our online healthcare services enables us to utilize medical resources and expand our customer coverage more effectively. On the other hand, we are able to strategically choose cities for offline expansion based on the activeness of online physicians and customers.

Combination of TCM and western medicine

We originated from the conventional TCM diagnosis and treatment methods of primary care and developed diagnosis and treatment methods combining TCM and western medicine. We provide TCM healthcare solutions through our integrated offline and online medical service network, combining conventional TCM diagnosis and treatment methods with western medicine, such as clinical laboratory examination and treatment. We aim to effectively and efficiently provide customers with comprehensive healthcare solutions, especially chronic disease management, to address their diverse medical and healthcare management needs. We focus on the customers' daily primary care, aiming to achieve long-term follow-up and healthcare management for customers.

Standardized and digitalized operations

We have been continuously strengthening the standardization and digitalization of our operations to provide an optimized customer experience and achieve better operational efficiency as well as resource sharing within our medical service network.

1. We have established a digital clerk system on the offline medical institution side. Through presenting operational data in the form of digital reports, we are able to enhance the in-depth interaction between our offline medical institutions and our customers to improve customer experience. In the meantime, the digital clerk system facilitates our real-time communication with and feedback collection from customers, thereby empowering our overall business through increasing customer visits and customer return rates of and implementing digital management in our offline medical institutions.

2. We have established a client relationship management (the "**CRM**") system on the medical-affair side to integrate our development and management of medical professional teams. Capitalizing on the CRM system, we are able to conduct digital analytics on daily operations and management of medical professional teams using digital statistics, thereby improving their operational efficiency.

3. We have built an intelligent prescription review platform embedded with compliance requirements under national reimbursement programs (國家醫保報銷方案), thereby conducting compliance control leveraging information technologies.

4. We have built a closed-loop enterprise resource planning (the "**ERP**") system that covers our whole business process to enhance our digital operation and management, thereby further improving management efficiency through comprehensive and systematic management of supply chain, sales, inventories and accounting.

In February 2021, the PRC government promulgated *Several Policies and Measures on Promoting the Development of Traditional Chinese Medicine* (《關於加快中醫藥特色發展的若干政策措施》), which proposed to promote the renowned physician project (名醫堂工程). In particular, private capitals with extensive experience are encouraged and supported to establish a chain of TCM medical institutions with renowned physicians and distinctive features under distinguishable brands, where they are expected to provide customers with top-ranking TCM healthcare services and products in a first-class environment. We believe that these policies constitute safeguards for our business operations.

In December 2021, the National Healthcare Security Administration (國家醫療保障局) and the National Administration of Traditional Chinese Medicine (國家中醫藥管理局) jointly issued the *Guidance on Supporting the Inheritance, Innovation and Development of TCM Healthcare Services and Products by National Reimbursement Programs* (《關於醫保支持中醫藥傳承創新發展的指導意見》), which proposed (i) to support the development of "Internet +" TCM healthcare services and include them in national reimbursement programs; (ii) to adjust the pricing of TCM healthcare services to reflect the labor value contained therein; (iii) to allow TCM healthcare service providers to sell decocting pieces at a markup of no more than 25%; (iv) to allow TCM healthcare service providers to price their in-hospital preparations at their sole discretion; (v) to include in-hospital preparations in national reimbursement programs; and (vi) to postpone the implementation of diagnosis-related group (the "**DRG**") payment mechanism in respect of TCM healthcare services, providing more support to TCM healthcare services and products on the national reimbursement side.

In March 2022, 10 government authorities including the National Administration of Traditional Chinese Medicine, the National Health Commission (國家衛生健康委員會) and the National Development and Reform Commission (國家發展和改革委員會) jointly issued the *14th Five-year Action Plan for the Improvement of Grass-roots Traditional Chinese Medicine Service Capability* (《基層中醫藥服務能力提升工程「十四五」行動計劃》), which encouraged the establishment of TCM medical institutions by private capitals at the grass-roots level and supported the cultivation of TCM medical institution chains, providing further encouragement and support for our business model.

In the same month, the General Office of the State Council (國務院辦公廳) issued the *Development Plan on Traditional Chinese Medicine During the 14th Five-year Period* (《「十四五」中醫藥發展規劃》) to introduce a comprehensive arrangement on traditional Chinese medicine during the 14th five-year period. Such plan sets forth a series of indicators to evaluate the development of traditional Chinese medicine, including (i) the number of practicing assistant TCM physicians per 1,000 population is expected to increase from 0.49 in 2020 to 0.62 in 2025; and (ii) the coverage of TCM medical institutions (including hospitals, out-patient departments and clinics) at county-level is expected to increase from 85.86% in 2020 to 100.0% in 2025. Such plan facilitates the increase in the supply of TCM resources as well as the improvement of the quality of TCM healthcare services at the grass-roots level, and helps us acquire more physician resources to address the undersupply of physicians.

In May 2022, the General Office of the State Council issued the *Notice on the Key Aspects in Deepening the Reform of the Medical and Health Care System in 2022* (《深化醫藥衛生體制改革2022年重點工作任務的通知》), which aimed to (i) promote the social pooling payments in general out-patient departments under national reimbursement programs aiming to gradually expand the coverage of social pooling payments to include the general out-patient medical fees of frequently-occurring diseases and common diseases; (ii) promote the revitalization and development of traditional Chinese medicine; and (iii) continuously promote the hierarchical medical system and optimize the order of healthcare services. Promotion of the social pooling payments in general out-patient departments nationwide indicates an expected rapid growth of the out-patient healthcare services in China. Our out-patient healthcare services are expected to thrive as a result.

In June 2022, the National Administration of Traditional Chinese Medicine, the Ministry of Education (教育部), the Ministry of Human Resources and Social Security (人力資源和社會保障部) and the National Health Commission jointly issued the *Opinion on Enhancing Traditional Chinese Medicine Talent Cultivation in the New Era* (《關於加強新時代中醫藥人才工作的意見》) (the "**Opinion**"), which set forth the goals and key aspects of TCM talent related matters in the new era, the core of which lay in speeding up a solution to the undersupply of TCM talents. The Opinion proposes to increase the supply of TCM talents through the strategy of "western medicine talents learning from TCM (西學中)" and the educational reforms, and to encourage the flow of TCM talents to grass-roots medical institutions. This will further alleviate the undersupply of physicians that we encounter in our development at the grass-roots level.

In October 2022, the National Administration of Traditional Chinese Medicine issued the *14th Five-year Plan for the Development of Traditional Chinese Medicine Talent* (《「十四五」中醫藥人才發展規劃》), which provided policy support in terms of (i) improving the system of TCM talent cultivation; (ii) increasing the number of TCM talent; (iii) enhancing the quality of TCM talent; (iv) optimizing the deployment of TCM talent; and (v) improving the evaluation system for TCM talent. Such plan accelerates the cultivation of high-quality TCM talent and helps us acquire more physician resources.

In November 2022, the National Health Commission, the National Administration of Traditional Chinese Medicine and the National Administration of Disease Control and Prevention (國家疾病預防控制局) jointly issued the *14th Five-year Plan for the National Health Informatization* (《「十四五」全民健康信息化規劃》), which deployed the action of "Internet + TCM healthcare services," the demonstrative action of establishing intelligent hospitals, etc., to further promote the in-depth integration of new-generation information technology and healthcare industry. With the application of internet technology in the TCM healthcare services, an industry chain of "Internet + TCM healthcare services" covering the preventative care before consultation, treatment during consultation and rehabilitation after consultation is forming. The plan rejuvenates the conventional TCM healthcare services and provides long-term policy support for our OMO operations.

During the Reporting Period, we generated our revenue primarily from (i) provision of healthcare solutions; and (ii) sale of healthcare products. Our revenue derived from provision of healthcare solutions for the year ended December 31, 2022 was primarily affected by a series of factors including the scale of our offline and online medical service network, the number of our customers and their spending during the year. Our revenue derived from sale of healthcare products for the year ended December 31, 2022 was primarily affected by the type and volume of valuable medicinal and nourishment sold during the year, the unit price of which may vary significantly. Generally, when the sales volume of valuable medicinal and nourishment with high unit price increased, we would generate more revenue from sale of healthcare products.

We have been actively expanding our business footprint in China. As of December 31, 2022, we owned and operated 48 medical institutions in Beijing, Shanghai, Guangzhou, Shenzhen, Foshan, Zhongshan, Fuzhou, Nanjing, Suzhou, Ningbo, Wuxi, Hangzhou, Zhengzhou and Wenzhou, all of which were private for-profit medical institutions operated under our brand name "Gushengtang (固生堂)." In addition, we owned and operated a variety of online channels as of December 31, 2022, including official websites, mobile applications, official WeChat accounts and mini programs. We also owned and operated five offline pharmacies for our sale of healthcare products as of December 31, 2022. Moreover, we had established collaborative relationships with 13 third-party online platforms as of December 31, 2022, through which we primarily provided online appointment services to customers.

During the Reporting Period, we had expanded our medical service network through strategically acquiring offline medical institutions and establishing new offline medical institutions. We acquired Beijing Guozong Jishi Traditional Chinese Medicine Hospital Co., Ltd. (北京國宗濟世中醫醫院有限公司) in May 2022. In addition, Beijing City Kunlun Hospital Co., Ltd. (北京市昆侖醫院有限公司), which was acquired by us in January 2021, commenced operations in June 2022 upon the completion of its renovation. As a result of the foregoing, we owned and operated four offline medical institutions in Beijing as of December 31, 2022, which enhanced our TCM healthcare service capability, brand influence and competitiveness in Beijing, increased our market share in the local TCM healthcare service market, and facilitated as well as consummated our deployment in the TCM healthcare service industry in Beijing. In October 2022, we entered into an equity transfer agreement with the shareholders of Hangzhou Datong Traditional Chinese Medicine Out-patient Department Co., Ltd. (杭州大同中醫門診部有限公司) (the "**Hangzhou Datong**") to acquire 93% equity interest of Hangzhou Datong. Such acquisition was completed in November 2022. In the same month, we entered into an equity transfer agreement with the shareholders of Shanghai Qiancheng Nursing Home Co., Ltd. (上海千誠護理院有限公司) (the "**Qiancheng Nursing Home**") and the shareholders of Hangzhou Huiyuantang Sinopharm Co., Ltd. (杭州回元堂國藥館有限公司) (the "**Huiyuantang Sinopharm**"), respectively, to acquire 100% equity interest of Qiancheng Nursing Home and Huiyuantang Sinopharm. Both acquisitions were completed in January 2023. These acquisitions further expanded our offline medical service network and enlarged our market share in East China. Furthermore, our three self-established medical institutions, namely Zhengzhou Gushengtang TCM Health Consulting Co., Ltd. (Zhengzhou Jinshui Branch) (鄭州固生堂中醫健康諮詢有限公司(鄭州金水分院)), Shenzhen

Gushengtang Longhua TCM Out-patient Department Co., Ltd. (Shenzhen Longhua Branch) (深圳固生堂隆樺中醫門診部(深圳隆樺分院)) and Wenzhou Lucheng Gushengtang TCM Out-patient Department Co., Ltd. (Wenzhou Lucheng Branch) (溫州鹿城固生堂中醫門診部有限公司(溫州鹿城分院)), commenced operations in December 2022, which expanded our business footprints in new cities while securing a steady growth for our existing business presence. Adhering to our existing strategies, we strive to achieve high-quality business expansion and increase the geographic coverage and market share of our medical service network.

We have also enhanced our collaboration in medical consortia and collaborated with more public hospitals and TCM universities, fully unleashing the potential of medical consortia to facilitate the sinking of high-quality physician resources to the grass-roots level in an orderly manner. During the Reporting Period, we successively entered into collaboration agreements or letters of intent on collaboration with multiple hospitals.

In December 2022, we obtained the Registration Approval for Medical Institutions on TCM In-hospital Preparations (醫療機構傳統中藥製劑備案憑證) from Guangdong Medical Products Administration (廣東省藥品監督管理局) for our first TCM in-hospital preparation named Nasal Congestion Relief Granules (通竅止涕鼻舒顆粒), which marked a substantial progress for our development of TCM in-hospital preparations. The Nasal Congestion Relief Granules were derived from a proven TCM formula intended for the treatment of allergic rhinitis, sinusitis, adenoid hypertrophy and snoring, which has been used clinically in our medical service network for over five years. As a giant step forward for the productization of our healthcare solutions, obtaining such registration approval can improve our prescription efficiency and better monetize our high-quality healthcare resources.

As a testament to our effective customer acquisition and retention strategies, we have achieved a steady growth in our customer base during the Reporting Period. The following table sets forth certain key information in connection with our customers for the years indicated:

	Year ended December 31,	
	2022	2021
New customers[1]	**551,999**	526,820
Accumulated customers at the end of each year[2]	**2,732,824**	2,180,825
Customer visits (thousands)	**2,945**	2,673
Accumulated customer visits at the end of each year (thousands)	**12,874**	9,929
Customer return rate[3] (%)	**64.0**	62.8
Average spending per customer visit (RMB)	**552**	513

Notes:

(1) Refer to customers who received healthcare solutions or purchased healthcare products provided by us for the first time.

(2) Refer to, as of the end of any financial year, the total number of customers who had ever visited our medical service network to receive any healthcare solution or purchase any healthcare product at any time on or before the end of such financial year.

(3) Refer to, in respect of any financial year, a fraction (expressed as a percentage) equals to the number of returning customers in respect of such financial year divided by the total number of customers who had visited our medical service network to receive any healthcare solution or purchase any healthcare product at any time during such financial year.

We endeavour to establish long-term relationships with our customers and attract customers to join our membership program to enhance customer loyalty. Through our dedicated efforts, our members have shown higher loyalty and consumption willingness compared with our other customers. We benefit from the word-of-mouth publicity arising from the recognition of our services, products and brand by our members. The following table sets forth certain key information in connection with our membership program for the years indicated:

	Year ended December 31,	
	2022	2021
Number of members who had made spending in our medical service network	**203,108**	138,328
Member visits (thousands)	**897**	752
Member return rate[1] (%)	**86.4**	87.3
Average spending per member (RMB)	**2,673**	3,118
Average spending per non-member customer (RMB)	**1,596**	1,537

Note:

(1) Refer to, in respect of any financial year, a fraction (expressed as a percentage) equals to the number of returning members in respect of such financial year divided by the total number of members who had visited our medical service network to receive any healthcare solution or purchase any healthcare product at any time during such financial year.

IMPACT OF THE COVID-19 PANDEMIC

The outbreak and spread of the COVID-19 pandemic had materially and adversely affected global economy. During the Reporting Period, the highly transmissible Delta and Omicron variants of the COVID-19 caused many government authorities to reimpose measures to contain the spread of the pandemic. Local healthcare administrative authorities in China imposed controls on healthcare services except for those in need for urgent medical attention. Patients suffering from chronic diseases generally avoided visiting medical institutions and pharmacies to minimize the risk of infection. During the Reporting Period, 30 offline medical institutions in our medical service network suspended operations for approximately 31 days on average. Specifically, during the Reporting Period, four offline medical institutions in Beijing suspended operations for approximately six days on average, seven offline medical institutions in Guangzhou, Guangdong province suspended operations for approximately 12 days on average, two offline medical institutions in Nanjing, Jiangsu province suspended operations for approximately 31 days on average, five offline medical institutions in Shenzhen, Guangdong province suspended operations for approximately 29 days on average, seven offline medical institutions in Shanghai suspended operations for approximately 53 days on average, three offline medical institutions in Suzhou, Jiangsu province suspended operations for approximately 75 days on average, one offline medical institution in Wuxi, Jiangsu province suspended operations for 10 days, and one offline medical institution in Fuzhou, Fujian province suspended operations for three days. Any prolonged spread or emergence of variation of COVID-19 pandemic could materially and adversely affect customer demand for our offline healthcare services and products.

However, the outbreak and spread of the COVID-19 pandemic have improved public awareness on health and sanitation in China. In the meantime, the outbreak and spread of the COVID-19 pandemic have facilitated the popularization of TCM healthcare services and products as well as the promulgation of favorable government policies which encourage the development of online healthcare services.

Since early December 2022, the government authorities in China announced 10 new measures for dealing with COVID-19 pandemic, which eased the restrictions previously imposed to contain the spread of the pandemic. The surge in infected population in China in late 2022 caused impacts on our business operations. We promptly expanded our service scope to include the treatment of COVID-19 through both offline and online channels. As many COVID-19 convalescents were suffering from sequelae such as cough and fatigue, we launched COVID-19 rehabilitation services capitalizing on the superiority of TCM in treating such symptoms and have served a large number of patients.

Our Directors consider the negative impacts caused by the COVID-19 pandemic were immaterial to the operational and financial performance of our Group during the Reporting Period. As there remain uncertainties as to the development of the pandemic, we will continue to closely monitor the indicators of the COVID-19 pandemic and proactively take timely measures to prevent its transmission within our medical service network and minimize any potential negative impact on our operations. To better cope with the COVID-19 pandemic, we have also allocated more resources to improve our business performance and boost promotion.

BUSINESS PROSPECT

Since our inception in 2010, we have adhered to our core value of better serving our customers with "conscientious physicians, reliable pharmaceuticals (良心醫, 放心藥)." We are committed to expanding our offline and online medical service network to provide high-quality TCM healthcare services and products to a larger customer base in response to national calls for the development of a "Healthy China." With the strong support to the TCM healthcare industry and the continuous promulgation of favorable policies by the PRC government, we will continue to (i) reinforce the resource advantage of our OMO platform and the brand value advantage of "Gushengtang (固生堂);" (ii) attract high-caliber medical resources to join our platform; (iii) solve the pain points of "inaccessible and unaffordable healthcare services" for our customers; and (iv) actively promote the collaboration in medical consortia, conducting a moderate business expansion without disrupting our existing operations.

Going forward, we expect our business strategies to focus on the following aspects:

1. **Continue to adopt the mentorship model in training TCM talents, aiming to cultivate and build a high-caliber team of young physicians.** The "Gushengtang" Reputable TCM Great Master Inheritance Studio (「固生堂」名中醫傳承工作室) and our OMO platform have achieved initial success in training young physicians. Our OMO platform has lifted the geographical restrictions and allows outstanding experts from various geographical regions to share their clinical experience and academic achievements with young talents efficiently, which can accelerate our team building of full-time physicians. With sufficient physician resources, the "Gushengtang" Reputable TCM Great Master Inheritance Studio provides quality assurance for comprehensive TCM healthcare services (including prevention, treatment, healthcare management and other personalized healthcare services) and allows outstanding experts to focus on clinical efficacy and customer experience in the process of diagnosis and treatment, thereby achieving a win-win service model for physicians and customers.

2. **Empower healthcare services with digitalization and "Internet +."** In line with the policies to encourage the development of "Internet +" TCM healthcare services as promulgated by the PRC government, we plan to launch smart hardware devices (such as four-examination instruments (四診儀)) to improve our auxiliary diagnosis and treatment capabilities in remote TCM healthcare services, leveraging which we expect to achieve a more extensive customer outreach. Through digital operations, we can provide customer service in a sophisticated way to improve customer retention rate as well as average revenue per customer constantly. Leveraging our digitalization capabilities, we expect to enhance economies of scale and operational efficiency of supply chain while securing the consistent quality of our healthcare services. In the future, we will continue to explore new membership service models (such as family doctor services) to attract new members. We will also continue to provide high-quality services to our members.

3. **Further enhance our investments in research and development to achieve the productization and standardization of healthcare solutions.** We have completed trial production for several in-hospital preparations, the indications of which include hair loss, rhinitis, infertility and digestive symptoms, for which we plan to apply for registration numbers. Our in-hospital preparation center has completed engineering construction, equipment acceptance and trial production, and has obtained the Medical Institution Preparation License (《醫療機構製劑許可證》). Consequently, it can be used to conduct mass production for in-hospital preparations for which we have obtained registration numbers, thereby achieving the productization of healthcare solutions. In December 2022, we obtained the Registration Approval for Medical Institutions on TCM In-hospital Preparations for our first TCM in-hospital preparation named Nasal Congestion Relief Granules, which marked a substantial progress for our development of TCM in-hospital preparations. See "— Business Review" for details. In the future, we expect to further increase our investments in this regard to produce more in-hospital preparations.

4. **Strengthen risk management and internal control to ensure a steady growth.** Our fast growth and expansion are accompanied by risks, and we are stepping up our efforts to cope with such risks. We will continue to upgrade our ERP system to enhance our information acquisition and management capabilities. We will also strengthen our control process and credit risk management to cope with the growing credit risk arising from our diversified business model. Along with our business expansion, we are exposed to the risks of price inflation and insufficient supply of raw materials in the emerging markets. Based on our market research and forward-looking estimate, we will establish a strategic reservation mechanism for TCM medicinal and extend our business to upstream procurement to cope with the aforementioned risks.

For details on the use of proceeds from global offering, see the section headed "Use of Proceeds from Global Offering" in this annual report.

FINANCIAL REVIEW

Revenue Breakdown

Revenue by Business Segment

The following table sets forth a breakdown of our revenue by business segment for the years indicated:

	Year ended December 31,				Year on year fluctuation
	2022		2021		2022/2021
	Revenue (RMB'000)	% of total (%)	Revenue (RMB'000)	% of total (%)	(%)
Provision of healthcare solutions	**1,595,717**	**98.2**	1,342,996	97.9	18.8
Sale of healthcare products	**28,844**	**1.8**	29,103	2.1	(0.9)
Total	**1,624,561**	**100.0**	1,372,099	100.0	18.4

Our consolidated revenue increased by 18.4% from RMB1,372.1 million for the year ended December 31, 2021 to RMB1,624.6 million for the year ended December 31, 2022, primarily attributable to the increase in revenue generated from provision of healthcare solutions.

Revenue from Provision of Healthcare Solutions

Our revenue derived from provision of healthcare solutions increased by 18.8% from RMB1,343.0 million for the year ended December 31, 2021 to RMB1,595.7 million for the year ended December 31, 2022, primarily attributable to the business expansion of our online healthcare platforms and the increased revenue generated by our newly acquired and existing offline medical institutions.

Revenue from Sale of Healthcare Products

Our revenue derived from sale of healthcare products remained relatively stable at RMB29.1 million for the year ended December 31, 2021 and RMB28.8 million for the year ended December 31, 2022.

Revenue by Settlement Method

As substantially all of our offline medical institutions are Designated Medical Institutions (定點醫療機構), customers may choose to rely on national reimbursement programs to pay for healthcare services and products provided by our offline medical institutions that are eligible for national reimbursement programs. Depending on the relevant practice with respect to national reimbursement programs, our offline medical institutions which are Designated Medical Institutions may be subject to government approved annual quotas for the medical fees that they are allowed to recover from the relevant public medical insurance bureaus. Customers may also rely on applicable commercial medical insurance policies or pay to our offline medical institutions in cash, bank cards or online payments via third-party payment platforms. For healthcare services and products provided by us through other channels, customers generally pay through bank cards or online payments via third-party payment platforms.

The following table sets forth a breakdown of our revenue by settlement method for the years indicated:

	Year ended December 31,				Year on year fluctuation
	2022		2021		2022/2021
	Revenue (RMB'000)	% of total (%)	Revenue (RMB'000)	% of total (%)	(%)
National reimbursement programs	**468,395**	**28.8**	380,858	27.8	23.0
— *Social pooling*	**257,401**	**15.8**	181,044	13.2	42.2
— *Individual accounts*	**210,994**	**13.0**	199,814	14.6	5.6
Others[(1)]	**1,156,166**	**71.2**	991,241	72.2	16.6
Total	**1,624,561**	**100.0**	1,372,099	100.0	18.4

Note:

(1) Refer to revenue generated from customers' settlements through commercial medical insurances, cash, bank cards and third-party online payment platforms.

The proportion of our revenue derived from settlement through national reimbursement programs in our total revenue increased from 27.8% for the year ended December 31, 2021 to 28.8% for the year ended December 31, 2022, primarily because (i) certain of our offline medical institutions became qualified as Designated Medical Institutions in 2022 and therefore became eligible for settling medical fees through national reimbursement programs; and (ii) certain local public medical insurance bureaus increased the specific percentages of medical fees that could be settled through national reimbursement programs.

Revenue by Channel

The following table sets forth a breakdown of our revenue by channel for the years indicated:

	Year ended December 31,				Year on year fluctuation
	2022		2021		2022/2021
	Revenue (RMB'000)	% of total (%)	Revenue (RMB'000)	% of total (%)	(%)
Offline medical institutions[(1)]	**1,364,921**	**84.0**	1,218,892	88.8	12.0
Online healthcare platforms	**259,640**	**16.0**	153,207	11.2	69.5
Total	**1,624,561**	**100.0**	1,372,099	100.0	18.4

Note:

(1) Including insignificant amount of revenue generated by offline pharmacies.

Our revenue derived from offline medical institutions increased by 12.0% from RMB1,218.9 million for the year ended December 31, 2021 to RMB1,364.9 million for the year ended December 31, 2022, which was in line with the business growth of our newly acquired and existing offline medical institutions. Our revenue derived from online healthcare platforms increased by 69.5% from RMB153.2 million for the year ended December 31, 2021 to RMB259.6 million for the year ended December 31, 2022, primarily because (i) we generated more revenue from customers in certain geographical regions such as Henan province, Sichuan province, Hubei province and Hunan province, where our online business ramped up rapidly; and (ii) the customer visits of our online business increased in 2022.

Cost of Sales

During the Reporting Period, our cost of sales primarily consisted of cost of physicians, cost of materials and the regular operating expenses including cost of non-physician staff worked at offline medical institutions, depreciation of right-of-use assets and utilities fees for offline medical institutions (the "**Additional Operating Expenses for Offline Medical Institutions**"). Our cost of sales increased by 49.6% from RMB751.8 million for the year ended December 31, 2021 to RMB1,125.0 million for the year ended December 31, 2022.

The following table sets forth a breakdown of our cost of sales for the years indicated, in order to provide useful information to investors in understanding and evaluating our results:

	Year ended December 31,				Year on year fluctuation
	2022		2021		2022/2021
	Cost of sales (RMB'000)	% of total (%)	Cost of sales (RMB'000)	% of total (%)	(%)
Cost of physicians and cost of materials	**884,109**	**78.6**	751,795	100.0	17.6
Additional Operating Expenses for Offline Medical Institutions(1)	**240,916**	**21.4**	—	—	N/A
Total	**1,125,025**	**100.0**	751,795	100.0	49.6
Cost of sales — simulated adjustment(2)					
Cost of physicians and cost of materials	**884,109**	**100.0**	751,795	100.0	17.6
Total	**884,109**	**100.0**	751,795	100.0	17.6

Notes:

(1) Additional Operating Expenses for Offline Medical Institutions that were previously recognized as selling and distribution expenses for the year ended December 31, 2021 were recognized as cost of sales for the year ended December 31, 2022.

(2) Simulated analysis was presented by the management for the purpose of facilitating year on year comparisons, assuming that the Operational Restructuring (as defined below) did not occur.

With an operational restructuring (the "**Operational Restructuring**"), our offline medical institutions solely focused on healthcare services and did not assume marketing functions any more. Therefore, more depreciation and amortization expenses related to right-of-use assets and renovation of offline medical institutions were allocated to cost of sales for the year ended December 31, 2022, as compared to the year ended December 31, 2021. In the meantime, as we centralized marketing functions to enhance marketing efficiency under OMO operations, non-physician staff worked at offline medical institutions turned to focus on healthcare services to improve customer satisfaction, and therefore have been regarded as part of our service team. As a result, more staff costs were recognized as cost of sales for the year ended December 31, 2022, as compared to the year ended December 31, 2021. Under simulated adjustment, our cost of sales would increase by 17.6% from RMB751.8 million for the year ended December 31, 2021 to RMB884.1 million for the year ended December 31, 2022, primarily due to (i) the continuous increase in cost of physicians mainly as a result of the expanded physician base; and (ii) the increase in cost of materials in line with our expanded business scale.

Gross Profit and Gross Profit Margin

Our gross profit decreased by 19.5% from RMB620.3 million for the year ended December 31, 2021 to RMB499.5 million for the year ended December 31, 2022, primarily due to a significant increase in cost of sales mainly as a result of the Operational Restructuring of our offline medical institutions.

The following table sets forth a breakdown and comparison of our gross profit by business segment for the years indicated, in order to provide useful information to investors in understanding and evaluating our results:

	Year ended December 31,			
	2022		2021	
	Gross profit (RMB'000)	Gross profit margin (%)	Gross profit (RMB'000)	Gross profit margin (%)
Gross profit				
Provision of healthcare solutions	**488,073**	**30.6**	607,361	45.2
Sale of healthcare products	**11,463**	**39.7**	12,943	44.5
Total	**499,536**	**30.7**	620,304	45.2
Gross profit — simulated adjustment[1]				
Provision of healthcare solutions	**728,989**	**45.7**	607,361	45.2
Sale of healthcare products	**11,463**	**39.7**	12,943	44.5
Total	**740,452**	**45.6**	620,304	45.2

Note:

(1) Simulated analysis was presented by the management for the purpose of facilitating year on year comparisons, assuming that the Operational Restructuring did not occur.

Under simulated adjustment, our gross profit would increase by 19.4% from RMB620.3 million for the year ended December 31, 2021 to RMB740.5 million for the year ended December 31, 2022, primarily attributable to the increase in the gross profit of provision of healthcare solutions. Under simulated adjustment, our gross profit of provision of healthcare solutions would increase by 20.0% from RMB607.4 million for the year ended December 31, 2021 to RMB729.0 million for the year ended December 31, 2022, which would be generally in line with the increase in revenue derived from provision of healthcare solutions. Our gross profit of sale of healthcare products decreased by 11.4% from RMB12.9 million for the year ended December 31, 2021 to RMB11.5 million for the year ended December 31, 2022, which was generally in line with the decrease in revenue derived from sale of healthcare products. Under simulated adjustment, our gross profit margin of provision of healthcare solutions would remain relatively stable at 45.2% for the year ended December 31, 2021 and 45.7% for the year ended December 31, 2022. Our gross profit margin of sale of healthcare products decreased from 44.5% for the year ended December 31, 2021 to 39.7% for the year ended December 31, 2022, primarily due to the sales promotion on healthcare products conducted by our online healthcare platforms to attract new customers.

Other Income and Gains

Our other income and gains increased by 50.4% from RMB22.3 million for the year ended December 31, 2021 to RMB33.6 million for the year ended December 31, 2022, primarily attributable to (i) an increase of RMB11.0 million in government grants, which was given by local governments to our medical institutions recognized as "Private Medical Institution at the Grass-roots Level (民辦基層醫療機構)" to encourage their business expansion; (ii) an increase of RMB10.5 million in interest income in line with our increased bank deposit; and (iii) the rent concessions from lessors related to the COVID-19 pandemic of RMB4.4 million, which were partially offset by a decrease of RMB15.3 million in net foreign exchange differences.

Selling and Distribution Expenses

	Year ended December 31,				Year on year fluctuation
	2022		2021		2022/2021
	Selling and distribution expenses (RMB'000)	% of total (%)	Selling and distribution expenses (RMB'000)	% of total (%)	(%)
Regional operating expenses	**203,411**	**98.1**	390,970	94.5	(48.0)
Equity-settled share-based payments	**–**	**–**	18,621	4.5	(100.0)
Third-party client acquisition costs	**3,913**	**1.9**	3,935	1.0	(0.6)
Total	**207,324**	**100.0**	413,526	100.0	(49.9)

During the Reporting Period, our selling and distribution expenses primarily consisted of regional operating expenses and third-party client acquisition costs. Regional operating expenses mainly represent all types of operating expenses and salaries and bonus for employees of our regional operating department. Equity-settled share-based payments mainly represent the one-off share-based payment for senior management of our sales department. Third-party client acquisition costs mainly represent commission fees paid to third-party online platforms which provide us with customer traffic pursuant to their collaboration with us.

Our selling and distribution expenses decreased by 49.9% from RMB413.5 million for the year ended December 31, 2021 to RMB207.3 million for the year ended December 31, 2022, primarily attributable to (i) a decrease of RMB187.6 million in regional operating expenses as a result of the Operational Restructuring; and (ii) a decrease of RMB18.6 million in equity-settled share-based payments mainly as a result of a one-off share-based payment we incurred during the year ended December 31, 2021.

We attract new customers through multi-channel customer acquisition strategies to further expand our customer base, while retaining existing customers and enhancing customer loyalty through differentiated customer retention strategies. We attract new customers primarily leveraging our increasingly established brand awareness and recognition underpinned by our extensive physician resources and outstanding service capability. We believe that our multi-channel customer acquisition strategies enable us to expand our customer base at relatively low customer acquisition costs. Similar to the year ended December 31, 2021, 95% of our new customers were acquired by our proprietary medical institutions, pharmacies, online healthcare platforms and flagship stores, while 5% of our new customers were introduced by third-party online platforms that we collaborated with during the Reporting Period. Our third-party client acquisition costs remained stable at RMB3.9 million for the years ended December 31, 2021 and 2022, respectively. We also attach great importance to customer experience and feedbacks. We believe that our customer retention strategies differentiate us from our competitors and help us enhance customer loyalty.

Administrative Expenses

Our administrative expenses decreased by 59.6% from RMB248.0 million for the year ended December 31, 2021 to RMB100.2 million for the year ended December 31, 2022, primarily attributable to a decrease of RMB134.9 million in equity-settled share-based payments mainly as a result of a one-off share-based payment we incurred during the year ended December 31, 2021.

Fair Value Changes of Convertible Redeemable Preferred Shares and Convertible Bonds

Fair value changes of convertible redeemable preferred shares and convertible bonds represent the fair value fluctuations of convertible redeemable preferred shares and convertible bonds. The fair value of convertible redeemable preferred shares and convertible bonds was determined with reference to the valuation of the Shares and embedded derivatives by an independent third-party valuer, which was primarily affected by financial forecast for our future performance.

During the Reporting Period, there was no further fair value loss in connection with the convertible redeemable preferred shares and convertible bonds, as compared to a fair value loss of RMB419.5 million of the convertible redeemable preferred shares and convertible bonds for the year ended December 31, 2021, which was primarily because the convertible redeemable preferred shares and convertible bonds were converted upon the completion of the global offering.

Other Expenses

During the Reporting Period, our other expenses primarily consisted of donation, impairment of financial assets and foreign exchange losses. Our other expenses decreased by 81.3% from RMB52.2 million for the year ended December 31, 2021 to RMB9.8 million for the year ended December 31, 2022, primarily because there were no further listing expenses incurred during the year ended December 31, 2022.

Finance Costs

Our finance costs decreased by 38.0% from RMB28.4 million for the year ended December 31, 2021 to RMB17.6 million for the year ended December 31, 2022, primarily attributable to (i) a decrease of RMB7.1 million in interest on bonds payable, as we settled bonds payable in 2021; and (ii) a decrease of RMB4.4 million in interest on interest-bearing bank loans and other borrowings as a result of our repayment of short-term bank loans in 2022.

Income Tax (Expenses)/Credit

We recorded income tax expenses of RMB15.2 million for the year ended December 31, 2022, compared to income tax credit of RMB11.1 million for the year ended December 31, 2021, primarily due to the increase in taxable profit in line with the business expansion of both our online healthcare platforms and offline medical institutions.

Profit/(Loss) for the Year

We recorded net profit of RMB183.6 million for the year ended December 31, 2022, compared to net loss of RMB506.9 million for the year ended December 31, 2021, primarily attributable to (i) the continuous and rapid increase in the revenue generated by our existing offline medical institutions and online healthcare platforms; (ii) no further fair value loss in connection with the convertible redeemable preferred shares and convertible bonds incurred upon the completion of the global offering, as compared to a fair value loss of RMB419.5 million of the convertible redeemable preferred shares and convertible bonds for the year ended December 31, 2021; (iii) a decrease of RMB154.2 million in equity-settled share-based payments mainly as a result of a one-off share-based payment we incurred during the year ended December 31, 2021; and (iv) no further listing expenses incurred upon the completion of the global offering.

Non-HKFRS Measure — Adjusted Net Profit

To supplement our financial information, which is presented in accordance with HKFRS, we also provide adjusted net profit as non-HKFRS measures, which is unaudited in nature and is not required by, or presented in accordance with, HKFRS. We believe that the non-HKFRS measure (i) facilitates year-on-year comparisons of operating performance by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance; and (ii) provides useful information to investors in understanding and evaluating our results of consolidated statements of comprehensive income in the same manner as they helped our management. However, our presentation of adjusted net profit may not be comparable to similarly titled measures presented by other companies as they do not have a standardized meaning. The application of the non-HKFRS measure has limitations as an analytical tool, and the Shareholders and investors should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under HKFRS.

We defined adjusted net profit as profit/loss for the year adjusted for items which are non-recurring or extraordinary, including (i) fair value change of financial liabilities at fair value through profit or loss in connection with the convertible redeemable preferred shares and the convertible bonds of our Company; (ii) equity-settled share-based payments in relation to the share options granted under the Pre-IPO Share Option Plan as defined in the Prospectus; and (iii) the non-recurring expense. We eliminate the potential impacts of these items that our management does not consider to be indicative of our operating performance, as they are either non-operating or non-recurring expenses of our Group. Adjusted net profit increased by 28.1% from RMB156.7 million for the year ended December 31, 2021 to RMB200.8 million for the year ended December 31, 2022, primarily attributable to (i) the increase in revenue attributable to the business expansion; and (ii) the decrease in finance costs for the year ended December 31, 2022.

	Year ended December 31, 2022	2021
Profit/(Loss) for the year	**183,551**	(506,886)
Adjustment for[1]:		
Fair value changes of financial instrument	**—**	419,490
Equity-settled share-based payments	**17,255**	171,405
Non-recurring expense[2]	**—**	72,710
Adjusted net profit	**200,806**	156,719

Notes:

(1) Non-cash, non-recurring or extraordinary items, which are to be adjusted only if the amount is equal to or greater than RMB1 million.

(2) Non-recurring expenses mainly represent the legal and professional fees and miscellaneous expenses relating to our Group's non-operating activities (such as listing and group reorganization).

Liquidity, Financial Resources and Capital Structure

The Shares of the Company were successfully listed on the Main Board of the Stock Exchange on December 10, 2021. There has been no change in the capital structure of our Group since then. As of December 31, 2022, the issued share capital of the Company was US$23,039.6458 and the number of Share in issue was 230,396,458 of US$0.0001 each.

As of December 31, 2022, we had cash and cash equivalents of RMB994.3 million (which was RMB1,030.7 million as of December 31, 2021), which were denominated in RMB, USD or HKD. As of December 31, 2022, we had interest-bearing bank and other borrowings of an aggregate amount of RMB71.2 million (which was RMB84.3 million as of December 31, 2021), which were denominated in RMB or USD with interest rates ranging from 4.04% to 6.00% per annum. Interests are charged at fixed rates. We have no interest rate hedging policy.

We aim to maintain sufficient cash and credit lines to meet our liquidity requirements. We finance our working capital requirements through a combination of funds generated from operations and alternative funding resources from equity and debt. The primary objectives of our capital management are to safeguard our ability to continue as a going concern and to maintain healthy capital ratios in order to support our business and maximize Shareholders' value. To effectively improve the utilization and liquidity of our idle cash, as approved and authorized by the Board, we purchased the fund shares of Ruihang Qingliang No. 1 Private Securities Investment Fund (瑞航清良1號私募證券投資基金) and Zhiyuan Quantitative Hedge Operation No. 6 Private Securities Investment Fund (致遠量化對沖運作6號私募證券投資基金), both of which are private securities investment funds legally established and registered in China. Our remaining cash were sufficient to meet our daily operational requirement during the Reporting Period.

Treasury Policy

Our financing and treasury activities are centrally managed and controlled at the corporate level. The Board closely monitors our liquidity position to ensure that the liquidity structure of our assets, liabilities and other commitments can meet our funding requirements all the time.

Contingent Liabilities

As of December 31, 2022, we did not have any contingent liabilities.

Gearing Ratio

As of December 31, 2022, our gearing ratio, being our total interest-bearing bank and other borrowings divided by our total equity as of the end of the year and multiplied by 100%, was 4.1% (December 31, 2021: 5.4%).

Foreign Currency Risk

We have transactional currency exposures. Such exposures arise from the use of financial instruments denominated in USD or HKD to finance our operations in the PRC and the fact that the repayment of those USD-denominated financial instruments is based on the RMB-denominated assets generated by our PRC operations. We have no foreign currency hedging policy. However, our management monitors foreign exchange exposures and will consider appropriate hedging measures in the future should the need arise.

Pledge of Assets

None of our assets were pledged to obtain financing as of December 31, 2021 and 2022.

Capital Expenditures

Our capital expenditure during the Reporting Period was primarily relating to (i) purchases of property, plant and equipment; (ii) renovation of our offline medical institutions; and (iii) purchases of intangible assets (such as software). During the Reporting Period, we incurred capital expenditures in an aggregate amount of RMB39.1 million (which was RMB53.0 million for the year ended December 31, 2021), primarily due to the increased expenditures on offline medical institutions and office equipment.

Significant Investments Held

We did not hold any significant investments during the Reporting Period.

Material Acquisitions and Disposals

The Company has no material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period.

Future Plans for Material Investments or Capital Assets

As of December 31, 2022, save for the “Future Plans and Use of Proceeds” disclosed in the Prospectus, we did not have any existing plan for acquiring other material investments or capital assets.

EMPLOYMENT AND REMUNERATION POLICY

As of December 31, 2022, we had 1,907 employees (which was 1,661 employees as of December 31, 2021). The following table sets forth a breakdown of the employees by function as of December 31, 2022:

Functions	Number of employees	% of total employees
Physicians and other medical professionals	995	52.2%
Management, operations and other	452	23.7%
Sales and marketing	326	17.1%
Supply chain	89	4.7%
Information technology and research and development	45	2.3%
Total	**1,907**	**100.0**

For the year ended December 31, 2022, our total staff cost amounted to approximately RMB273.2 million (which was approximately RMB343.0 million for the year ended December 31, 2021), including pension and housing fund.

We provide competitive compensation packages. Remuneration packages for employees mainly comprise base salary and performance-based bonus. We set performance targets for our employees primarily based on their position and department and periodically review their performance. The results of such reviews are used in their salary determinations, bonus awards and promotion appraisals. Selected Directors, senior management and employees were offered to participate in the Pre-IPO Share Option Plan, Post-IPO Share Option Scheme and RSA Scheme (New Shares).

We believe we have maintained good relationships with our employees. The employees are not represented by a labor union. During the Reporting Period and up to the date of this annual report, we did not experience any strikes or any labor disputes with our employees which have had or are likely to have a material effect on our business.

To maintain and enhance the knowledge and skill levels of our workforce, we provide our employees with internal training, including orientation programs for new employees and technical training for existing employees. We also offer external training opportunities to our management team and medical professionals.

FINAL DIVIDENDS

The Board has resolved not to recommend payment of a final dividend for the fiscal year ended December 31, 2022.

USE OF PROCEEDS FROM GLOBAL OFFERING

The Company issued 27,878,000 ordinary Shares at HK$29.00, which were listed on the Main Board of the Stock Exchange on December 10, 2021. The net proceeds from the global offering received by the Company, after deduction of the underwriting fees and commissions and other expenses payable by the Company in connection with the global offering, amounted to approximately HK$775.9 million (the "**Net Proceeds**"), which will be utilized in accordance with the intended purposes set out in the Prospectus.

The following table sets out the intended use of the Net Proceeds, actual usage up to December 31, 2022, as well as the expected timeline for utilization:

	Net Proceeds and utilization					
	% of the Net Proceeds (%)	Amount available for utilization	Utilized amount during the year ended December 31, 2022	Utilized amount as of December 31, 2022 (HK$ million)	Remaining amount as of December 31, 2022	Expected timeline for utilization(1)
To expand our offline and online operations and enhance the integration between them	69.9	541.3	163.1	163.1	378.2	by the end of 2025
To enhance our research and development capabilities, including the research and development of in-hospital preparation and TCM solution packages	9.6	74.8	8.4	8.4	66.4	by the end of 2025
To strengthen our supply chain capability, including upgrading our existing decocting centers and establishing new decocting centers according to our business expansion and setting up our own GMP facility in mid to long term based on business needs	9.6	74.8	3.4	3.4	71.4	by the end of 2025
For marketing and branding activities	4.9	38.3	20.8	20.8	17.5	by the end of 2025
For working capital and general corporate purposes	6.0	46.7	38.7	46.7	–	–
Total	100.0	775.9	234.4	242.4	533.5	

Note:

(1) The expected timeline for the usage of the remaining proceeds is made based on our best estimate of our future market conditions, which is subject to the current and future development of the market conditions.

As of the date of this annual report, we have utilized Net Proceeds of approximately HK$330.7 million. The remaining Net Proceeds were deposited in banks as of the date of this annual report. We will gradually utilize the Net Proceeds in accordance with the intended purposes as set out in the Prospectus.

Directors and Senior Management

DIRECTORS

Executive Director

Mr. Tu Zhiliang (涂志亮), aged 44, founded the Group in September 2010 and was appointed as a Director on May 8, 2014, chairman of the Board and the chief executive officer of the Company on August 21, 2014 and was re-designated as the executive Director on May 25, 2021. Mr. Tu is the chairman of the nomination committee of the Group. Mr. Tu is primarily responsible for the overall corporate and business strategies, overseeing the management and operation of the Group.

With over 18 years of experience in healthcare industry, Mr. Tu has gained an in-depth understanding of healthcare services and products and acquired rich management experience by managing the Group and developing the business. Prior to the foundation of the Group in September 2010, he served at iKang Health Technology Group Company Limited (愛康健康科技集團有限公司), a health management group operating healthcare service centers in the PRC from December 2004 to November 2009, where he served as various positions including the sales manager in Guangdong branch, deputy general manager of South China, supervisor of sales, senior supervisor and deputy general manager of North China, assistant to the chairman and deputy general manager of Eastern China, and the executive deputy general manager in Shenzhen. In September 2010, Mr. Tu founded Guangdong Gushengtang and has been the chairman of the board since then. He also served as the general manager of Guangdong Gushengtang from its establishment to March 2021. Mr. Tu has also been serving as a director of several subsidiaries of the Company, including but not limited to Gushengtang Hong Kong since May 2014, and a supervisor of various members of the Group, including but not limited to Nanjing Gushengtang Ningxi TCM Out-patient Department Co., Ltd. (南京固生堂寧西中醫門診部有限公司) since July 2016, Fuzhou Gushengtang General Out-patient Co., Ltd. (福州固生堂綜合門診有限公司) since August 2016, and Shanghai Gushengtang Wanjia TCM Out-patient Co., Ltd. (上海固生堂萬嘉中醫門診有限公司) since October 2016.

Mr. Tu is a member of the Thirteenth Guangdong Province's Political Consultative Conference of China (第十三屆中國人民政治協商會議廣東省委員會) and was a member of the Twelfth Guangdong Province's Political Consultative Conference of China (第十二屆中國人民政治協商會議廣東省委員會). He also served as an executive member of the council of the China Association of Chinese Medicine (中華中醫藥學會) from November 2014 to December 2020, where he also was appointed as the deputy chairman member of Operating, Study and Research Branch, Development and Reform Research Branch, and Health Professional Committee. He also served as the vice chairman of the Board of Specialty Committee of the TCM Clinic & Community health service of World Federation of Chinese Medicine Societies (世界中醫藥學會聯合會國醫堂館社區服務專業委員會) from July 2015 to July 2019, and the executive council member of the Board of Specialty Committee of TCM Preventative Treatment of World Federation of Chinese Medicine Societies (世界中醫藥學會聯合會中醫治未病專業委員會) from March 2016 to March 2020. Mr. Tu also served as an executive director of Guangdong Provincial Association of Chinese Medicine (廣東省中醫藥學會) from November 2015 to November 2020. Since March 2023, Mr. Tu has been serving as the president of TCM Hospital Consortium of the China Association of Chinese Medicine, with the term until March 2027.

Mr. Tu was admitted by the executive master of business administration program of Cheung Kong Graduate School of Business (長江商學院) in January 2018.

Save as disclosed in this section, Mr. Tu did not hold any directorships in any other listed companies during the three years prior to and including the date of this annual report.

Non-executive Directors

Mr. Jiang Xiaodong (蔣曉冬), aged 46, was appointed as a Director on August 21, 2014 and re-designated as a non-executive Director on May 25, 2021, and is responsible for providing strategic advice and making recommendations on financial management and business development to the Board. Mr. Jiang is a member of the audit committee of the Company.

Mr. Jiang has over 17 years of experience in investment industry. Mr. Jiang began his investing career in May 2005 at New Enterprise Associates, Inc., an American-based worldwide venture capital firm. From January 2006 to December 2016, Mr. Jiang served as the managing director of its China office, New Enterprise Associates (Beijing) Ltd. and was responsible for investments in China for 11 years. In August 2016, Mr. Jiang founded Long Hill Capital Venture Partners 1, L.P. and has been responsible for the investment, financing and management of the funds.

Mr. Jiang obtained his master's degree in computer science and technology from University of Illinois at Urbana-Champaign in the United States in May 2001.

Save as disclosed in this section, Mr. Jiang did not hold any directorships in any other listed companies during the three years prior to and including the date of this annual report.

Mr. Huang Jingsheng, aged 65, was appointed as a Director on August 21, 2014 and re-designated as a non-executive Director on May 25, 2021, and is responsible for providing strategic advice and making recommendations on financial management and business development to the Board. Mr. Huang is a member of the remuneration committee of the Company.

Mr. Huang has over 20 years of experience in startups business, financing and investment. From January 2002 to September 2005, he was the managing director of SoftBank Asia Infrastructure Fund (軟銀亞洲信息基礎投資基金), mainly responsible for fund-raising and investment. From October 2005 to August 2011, he was the managing director of Bain Capital Private Equity Advisors (China) Ltd. (貝恩投資顧問(中國)有限公司), a private equity investment firm. From December 2011 to July 2014, he served at TPG HuHua (Shanghai) Equity Investment Management Enterprise (Limited Partnership) (德太滬華 (上海)股權投資管理企業 (有限合夥)). From July 2014 to June 2020, he was a general manager of Harvard Center Shanghai and responsible for the overall management of the center. Mr. Huang has also been serving as a supervisor of Guangdong Gushengtang since September 2010.

From May 2010 to May 2019, Mr. Huang was the independent non-executive director of Besunyen Holdings Company Limited (碧生源控股有限公司) (Stock Code: 0926.HK), a provider of therapeutic teas in the PRC. Since December 2015, he has served at Yiren Digital Ltd. (Stock Code: YRD.NYSE), a personal financial service platform in the PRC, where he was the independent director and re-designated as a director in January 2020. He has also served at SOHO China Limited (Stock Code: 0410.HK), a Chinese building developer as the independent non-executive director since August 2018 and the non-executive chairman of the board since September 2022.

Mr. Huang graduated, majoring in English, from the Beijing Foreign Studies University (北京外國語大學) (formerly known as Beijing Foreign Languages Institute (北京外國語學院)) in January 1982 and obtained a master's degree in sociology in January 1988 from Stanford University. He received a master's degree in business administration from Harvard University in June 1999.

Save as disclosed in this section, Mr. Huang did not hold any directorships in any other listed companies during the three years prior to and including the date of this annual report.

Mr. Xu Yongjiu (徐永久), aged 45, was appointed as a Director on July 15, 2017 and re-designated a non-executive Director on May 25, 2021 and is responsible for providing strategic advice and making recommendations on financial management and business development to the Board.

Mr. Xu has over 13 years of experience in strategy and investment. From April 2009 to December 2009, Mr. Xu joined Shanghai International Group Company Limited (上海國際集團有限公司) and served as a senior project manager of strategic development department. From December 2009 to June 2011, he served at Shanghai International Trust Co., Ltd. (上海國際信託投資有限公司). From November 2011 to August 2016, he served at the vice president of investment director of GP Capital Co., Ltd (金浦產業投資基金管理有限公司). Since September 2016, he has served as the managing director of investment at GP Health Service Capital Co., Ltd (上海金浦健服股權投資管理有限公司). Since October 2021, Mr. Xu has served as a shareholder representative supervisor of Wunzhou Kangning Hospital Co., Ltd. (溫州康寧醫院股份有限公司) (Stock Code: 2120.HK). Since April 2023, he has served as the president of GP Health Service Capital Co., Ltd (上海金浦健服股權投資管理有限公司) and chairman of investment decision committee of Chongqing GP Health Service Investment Fund LLP (重慶金浦醫療健康服務產業股權投資基金合夥企業(有限合夥)), broadly responsible for the operation and management of GP Health Service Capital Co., Ltd (上海金浦健服股權投資管理有限公司).

Mr. Xu received a bachelor's degree in economics majoring in accounting from Southwestern University of Finance and Economics (西南財經大學) in Chengdu, Sichuan province, in July 2000. He obtained a master's degree in economics majoring in finance from Fudan University (復旦大學) in Shanghai in June 2004. He was admitted by Fudan University (復旦大學) in January 2015 to study biotechnology. He was also admitted by China Europe International Business School (中歐國際工商管理學院) in April 2019 to study business administration and is currently a candidate for an executive master's degree of business administration. He was also appointed by degree evaluation committee office of Fudan University (復旦大學) as an industry tutor of financial professional degree of Fudan University (復旦大學) in January 2022.

Save as disclosed in this section, Mr. Xu did not hold any directorships in any other listed companies during the three years prior to and including the date of this annual report.

Mr. Liu Kanghua (劉康華), aged 36, was appointed as a non-executive Director on May 25, 2021 and is responsible for providing strategic advice and making recommendations on financial management and business development to the Board.

Mr. Liu has over 13 years of experience in quality control and internal control. From July 2009 to March 2011, he served in GP Batteries Industrial Limited. From June 2011 to September 2017, he worked at SGS-CSTC Standards Technical Services Co., Ltd., Guangzhou Branch (通標標準技術服務有限公司廣州分公司), mainly responsible for auditing and supplier audit review. From October 2017 to April 2018, he served at Guangzhou Evergrande Materials Equipment Company Limited (廣州恒大材料設備有限公司). He also served as a senior accountant at Ernst & Young (China) Enterprise Consulting Co., Ltd., Guangzhou branch (安永(中國)企業諮詢有限公司廣州分公司) and responsible for consulting business from April 2018 to May 2021. On December 2022, Mr. Liu has been enrolled to the Master of Business Administration programme offered by the Chinese University of Hong Kong.

Mr. Liu graduated from the South China University of Technology (華南理工大學), with a bachelor's degree in chemical engineering and technology July 2009. He was accredited as a certified internal auditor by The Institution of Internal Auditors in March 2019 and a certified information systems auditor by Information Systems Audit and Control Association in June 2019. He was also accredited as an intermediate economist by the Ministry of Human Resources and Social Security of the People's Republic of China in November 2020.

Save as disclosed in this section, Mr. Liu did not hold any directorships in any other listed companies during the three years prior to and including the date of this annual report.

Mr. Gao Jian (高建), aged 60, was appointed as a non-executive Director on May 25, 2021 and is responsible for providing strategic advice and making recommendations on financial management and business development to the Board.

Since he obtained his doctor's degree from Tsinghua University in July 1996, he has worked at the School of Economics and Management, Tsinghua University (清華大學經濟管理學院), successively as an associate professor in 1998 and a professor from December 2005 to July 2008, and the deputy dean from 2012 to 2015. From 2014 to 2019, he served as the secretary of the committee of Communist Party of China (黨委書記) of School of Economics and Management in Tsinghua University (清華大學經濟管理學院).

From November 2005 to March 2012, Mr. Gao served as an independent director of Shandong New Beiyang Information Technology Co., Ltd (山東新北洋信息技術股份有限公司) (Stock Code: 002376.SZ), a company engaged in the business of smart devices and equipment. Since February 2020, he has been serving as an independent director, member of the strategy committee, audit committee and nomination committee and chairman of remuneration committee and evaluation committee of Shenzhen Leaguer Co., Ltd. (深圳市力合科創股份有限公司) (Stock Code: 002243.SZ), a company engaged in technology innovation services.

Mr. Gao obtained a bachelor's degree majoring in engineering and a master's degree majoring in engineering from Chongqing Institute of Architecture and Engineering (重慶建築工程學院), currently known as Chongqing University (重慶大學), in July 1984 and July 1987, respectively. He received a doctor's degree in engineering from School of Economics and Management, Tsinghua University (清華大學) in Beijing in July 1996.

Save as disclosed in this section, Mr. Gao did not hold any directorships in any other listed companies during the three years prior to and including the date of this annual report.

Independent Non-executive Directors

Ms. Jin Xu (金旭), aged 54, was appointed as an independent non-executive Director on November 16, 2021 and is responsible for providing independent opinion and judgement to the Board. Ms. Jin is a chairwoman of the remuneration committee and a member of the nomination committee of the Company.

Ms. Jin has over 28 years of experience in fund management. From July 1993 to November 2001, she served at the China Securities Regulatory Committee with her last position as the head of the custodian comprehensive department of fund supervision division. From November 2001 to June 2004, she served at China Asset Management Co., Ltd. (華夏基金管理有限公司), a company principally engaged in asset management, with her last position being the deputy general manager. After that, she joined Baoying Fund Management Co., Ltd. (寶盈基金管理有限公司), a company engaged in fund establishment and management as well as asset management and served as the general manager from July 2004 to April 2006. She also served as the chief representative in the Beijing Representative Office of Mellon Global Investment Co., Ltd. (梅隆全球投資有限公司), a company principally engaged in asset management from April 2006 to May 2007, after which she became the general manager of Guotai Asset Management Co., Ltd. (國泰基金管理有限公司), a company principally engaged in fund establishment and management, till December 2014. In 2015, she joined China Merchants Fund Management Co., Ltd. (招商基金管理有限公司), a company principally engaged in fund establishment and management, where she held the position of general manager and served as the vice chairman of the board of directors till January 2022. Since November 2020, she has served as the independent non-executive director of Leading Holdings Group Limited (領地控股集團有限公司) (Stock Code: 6999.HK), a property developer in the PRC.

Since February 2017, Ms. Jin has been the chairman of the Public Fund Professional Committee of the China Securities Investment Fund Industrial Association (中國證券投資基金業協會公募基金專業委員會). Since July 2017, she has been the vice president of the Shenzhen Investment Fund Industrial Association (深圳市投資基金同業公會). She received the "Leading Character of Funds Industry" (基金行業領軍人物獎) award from Sina Finance (新浪財經) in 2018.

Ms. Jin obtained master's degree in economic law from Peking University in July 1993. In May 1996, she obtained a master of law degree in comparative law from New York University in the United States.

Save as disclosed in this section, Ms. Jin did not hold any directorships in any other listed companies during the three years prior to and including the date of this annual report.

Mr. Li Tie (李鐵), aged 45, was appointed as an independent non-executive Director on November 16, 2021 and is responsible for providing independent opinion and judgement to the Board. Mr. Li is a chairman of the audit committee and a member of the remuneration committee of the Company.

Mr. Li has over 20 years of experience in financing and accounting. From August 2002 to February 2008, he worked at Beijing office of PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) (普華永道中天會計師事務所(特殊普通合夥)). From March 2008 to June 2016, he served at Autohome Inc. (Stock Code: ATHM.NYSE), an online destination for automobile consumers in China, as a vice president. Since July 2016, he has served as a director and chief financial officer of Li Auto Inc. (Stock Code: 2015.HK and LI.NASDAQ), a new energy intelligent electric vehicle manufacturer in China.

Mr. Li graduated from the Tsinghua University (清華大學) in Beijing with a bachelor's degree majoring in accounting and a master's degree majoring in management in July 1999 and July 2002, respectively. He also completed the Senior Executive Leadership Program of Harvard Business School in July 2019 and became a member of the Chinese Institute of Certified Public Accountants on May 2021.

Save as disclosed in this section, Mr. Li did not hold any directorships in any other listed companies during the three years prior to and including the date of this annual report.

Mr. Wu Taibing (吳太兵), aged 47, was appointed as an independent non-executive Director on November 16, 2021 and is responsible for providing independent opinion and judgement to the Board. Mr. Wu is a member of the Audit Committee and Nomination Committee of the Company.

Mr. Wu has over 19 years of experience in corporate management. He has been serving as the chairman and general manager in Wanxing Technology Group Co., Ltd. (萬興科技集團股份有限公司) (Stock Code: 300624.SZ), a software products and services provider, since October 2003. Mr. Wu was awarded as the "2020 New Era Business Leader" (2020新時代商業領袖) by the Ninth China Finance Summit in August 2020 and the "Top Ten Entrepreneur of the Year 2018" (2018十大年度創業家) from The Founder & I Dark Horse (創業家&i黑馬) in 2018. He was also the member of fifth Shenzhen Nanshan District Chinese People's Political Consultative Conference (深圳市南山區政協). Mr. Wu is a member of the Thirteenth Hunan Province's Political Consultative Conference of China (第十三屆中國人民政治協商會議湖南省委員會). He is also the member of seventh council of China Software Industry Association (中國軟件行業協會).

Mr. Wu received a master's degree in business administration from Shanghai Jiaotong University (上海交通大學).

Save as disclosed in this section, Mr. Wu did not hold any directorships in any other listed companies during the three years prior to and including the date of this annual report.

SENIOR MANAGEMENT

Mr. Tu Zhiliang (涂志亮) is an executive Director and the chief executive officer of the Company. See "— Directors — Executive Director" for details of his biography.

Mr. Deng Shigang (鄧仕剛), aged 50, was appointed as the chief financial officer of our Group on August 5, 2019, primarily responsible for overseeing the mergers, acquisitions and financing and taking charge of financial management and capital operating system of our Group.

Mr. Deng has over 23 years of experience in finance and accounting. From April 1999 to August 2000, he was the financial manager of Guangzhou Panyu MCP Industries Co., Ltd. (廣州番禺美特包裝有限公司), a subsidiary wholly-owned by CPMC Holdings Limited (Stock Code: 906.HK), which is engaged in packages manufacturing and wholesaling. From January 2001 to July 2003, he was the financial manager of Ming Fai Enterprise (Shenzhen) Co., Ltd (明輝實業(深圳)有限公司), a subsidiary of Ming Fai International Holdings Limited (Stock Code: 3828.HK), which is the guest supplies and accessories supplier for tourism operators. From August 2003 to April 2012, he was employed by Kam Hing International Holdings Limited (Stock Code: 2307.HK), a company engaged in the production and sale of garment and textile, where his last position is deputy general manager. From June 2012 to December 2018, he served at EEKA Fashion Holdings Limited (贏家時尚控股有限公司) (formerly known as Koradior Holdings Limited (珂萊蒂爾控股有限公司)) (Stock Code: 3709.HK), a high-end ladies-wear group with design center, marketing service system, logistics distribution and network management system, where he became the chief financial officer in June 2012 and the executive director in March 2014, responsible for the overall financial management and operation, and served as a non-executive director from July 2017 to December 2018. Mr. Deng has also been serving as a supervisor of Guangdong Gushengtang since August 2021.

Mr. Deng received his bachelor of economics degree majoring in accounting and auditing and master of business administration from Sun Yat-sen University (中山大學) in Guangzhou, Guangdong province in June 1995 and June 2001 respectively. He became a qualified member of The Chinese Institute of Certified Public Accountants in January 2001.

Mr. Deng did not hold any directorships in any listed companies during the three years prior to and including the date of this annual report.

Ms. Li Jie (李潔), aged 44, was appointed as the vice president of our Group on October 16, 2019, primarily responsible for overseeing the operation in Shenzhen business area and supervising the operation in Suzhou, Wuxi, Ningbo and Fuzhou business areas.

Ms. Li has over 20 years of experience in marketing and business management mainly in healthcare industry. Prior to joining in our Group, she served at Shenzhen Neptunus Biological Engineering Co., Ltd. (深圳市海王生物工程股份有限公司) (Stock Code: 000078.SZ) ("**Neptunus Biological**") from July 2002 to October 2005, with her last position being the sales supervisor of Shenzhen Neptunus Eye Treasure Technology Co., Ltd. (深圳市海王眼之寶科技有限公司), a wholly-owned subsidiary of Neptunus Biological. From June 2007 to February 2010, she served at Hangzhou MSD Pharmaceutical Co., Ltd. Guangzhou Branch (杭州默沙東製藥有限公司廣州分公司), a non-wholly owned company of Merck & Co., Inc. (Stock Code: MRK.NYSE) with her last position being hospital representative. From February 2010 to March 2011, she served as a hospital sales representative of Sanofi (Beijing) Pharmaceutical Co., Ltd. (賽諾菲(北京)製藥有限公司), formerly known as Sanofi-Aventis (Beijing) Pharmaceutical Co., Ltd. (賽諾菲安萬特(北京)製藥有限公司), an affiliate of Sanofi S.A. (stock code: SAN.EPA), where she also served as a product specialist from August 2010 to March 2011. In June 2012, Ms. Li joined in the Group as the general manager of Shenzhen area and successively held the positions as the general manager of sales center, general manager of medical administration department and the partner of the Group. She served as the assistant to the president of the Group from January 2018 to September 2019 and has been serving as the vice president of the Group since October 2019. Ms. Li has also been serving as a supervisor of Guangdong Gushengtang since September 2010 and a director and the legal representative of various members of the Group, including but not limited to Shenzhen Gushengtang Yuanbo Out-patient Department (深圳固生堂園博門診部), Shenzhen Gushengtang TCM Health Technology Co., Ltd. (深圳固生堂中醫健康科技有限公司) and Shenzhen Gushengtang TCM Investment Development Co., Ltd. (深圳固生堂中醫投資發展有限公司) since December 2019.

Ms. Li obtained a bachelor's degree majoring in clinical medicine from Wuhan University of Science and Technology (武漢科技大學) in June 2002. She was also admitted by Xiamen University (廈門大學) in April 2019 to study business administration and is currently a candidate for an executive master of business administration degree.

Ms. Li did not hold any directorships in any listed companies during the three years prior to and including the date of this annual report.

Mr. Zheng Xiang (鄭項), aged 38, was appointed as the vice president of our Group on September 9, 2020 and is primarily responsible for taking charge of establishment and development of the technology system, leading the promotion and expansion of online hospital with TCM healthcare services.

Mr. Zheng has nearly 16 years of experience in Internet and medicine industry. From July 2007 to October 2009, he served at NR Electric Co., Ltd. From October 2010 to July 2015, he served as the chief operation officer at Nanjing Jinchuangneng Network Technology Co., Ltd. (南京金創能網路技術有限公司) and co-founded Nanjing Dianzan Network Technology Co., Ltd. (南京點贊網路科技有限公司), a company engaged in e-commerce services. From September 2015 to November 2016, he worked at Chia Tai Tianqing Pharmaceutical Group Co., Ltd. (正大天晴藥業集團股份有限公司), a non-wholly owned subsidiary of SINO Biopharmaceutical Limited (中國生物製藥有限公司) (Stock Code: 1177.HK), where he served as the manager on internet product operation. From August 2016 to July 2020, he founded Nanjing Yikang Information Technology Co., Ltd. (南京一康信息技術有限公司). He has been the partner of our Group since September 2020 and a vice president of our Group since September 2020. Mr. Zheng has also been serving as a director and the legal representative of Nanjing Baihui Yunyi Technology Co., Ltd. (南京百會雲醫科技有限公司) since July 2019, Guangzhou Gushengtang Internet Hospital Management Co., Ltd. (廣州固生堂互聯網醫院管理有限公司) since March 2021, and Shanghai Wanlian Pharmacy Co., Ltd. (上海萬聯大藥房有限公司) since June 2021, and the general manager of Guangzhou Gushengtang Internet Hospital Management Co., Ltd. (廣州固生堂互聯網醫院管理有限公司) since March 2021.

Mr. Zheng received his bachelor's degree majoring in information and computing science in Nanjing University of Science and Technology (南京理工大學) in September 2007. He was admitted by China Europe International Business School (中歐國際工商學院) in January 2021 to study business administration and is currently a candidate for an executive master's degree of business administration.

Mr. Zheng did not hold any directorships in any listed companies during the three years prior to and including the date of this annual report.

Ms. Zhang Qiumin (張秋敏), aged 40, was appointed as a regional general manager of our Group on January 1, 2018, mainly responsible for overseeing the overall business operation in Shanghai and Beijing business areas of our Group.

Ms. Zhang has over 15 years of experience in healthcare industry. From March 2007 to July 2011, she served as the assistant to the dean at Shenzhen iKang Excel Kuaiyanbao Outpatient Department (深圳愛康卓悦快驗保門診部) (formerly known as Shenzhen iKang Guobin Puji Outpatient Department (深圳愛康國賓普濟門診部)). Ms. Zhang joined Guangdong Gushengtang in April 2011 and subsequently served as a manager in operating facilities in Beijing, Guangzhou, and was then promoted to deputy general manager of Guangzhou business area. In July 2017, she was promoted as the operating deputy general manager of our Shanghai business area. She has served as the regional general manager in our Shanghai business area since January 2018 and has supervised the operation in our Beijing business area since January 2021. Ms. Zhang has also been serving as (i) the general manager of Shanghai Gushengtang Tongbaokang TCM Out-patient Department Co., Ltd. (上海固生堂同保康中醫門診部有限公司) since January 2018, Shanghai Gushengtang Zhongyida TCM Out-patient Department Co., Ltd. (上海固生堂眾益達中醫門診部有限公司) since July 2020, Shanghai Gushengtang Zhenantang TCM Out-patient Department Co., Ltd. (上海固生堂真安堂中醫門診部有限公司) since August 2020 and Shanghai Gutang Health Management Consultancy Co, Ltd. (上海固堂健康管理諮詢有限公司) since August 2021; (ii) a supervisor of Shanghai Wanlian Pharmacy Co., Ltd. (上海萬聯大藥房有限公司) since June 2021; and (iii) a director and the legal representative of various members of the Group, including but not limited to Shanghai Gushengtang Wanjia TCM Out-patient Co., Ltd. (上海固生堂萬嘉中醫門診有限公司) since February 2022, Shanghai Gushengtang Jinyue Out-patient Department Co., Ltd. (上海固生堂金悦門診部有限公司) since March 2020 and Shanghai Gushengtang Zhongyida TCM Out-patient Department Co., Ltd. (上海固生堂眾益達中醫門診部有限公司) since July 2020.

Ms. Zhang graduated, majoring in nursing, from Guangdong Medical University (廣東醫科大學) (formerly known as Guangdong Medical College (廣東醫學院)) in January 2013.

Ms. Zhang did not hold any directorships in any listed companies during the three years prior to and including the date of this annual report.

JOINT COMPANY SECRETARIES

Ms. Xie Xiaoping (謝小平), aged 46, was appointed as one of the joint company secretaries of the Company.

Ms. Xie joined the Group in January 2020 and served as the financial general manager of Guangdong Gushengtang, mainly responsible for the general financial affairs and financial management. Before joining the Group, Ms. Xie served at Kam Hing Textile (International) Limited, a subsidiary of Kam Hing International Holdings Limited (錦興國際控股有限公司) (Stock Code: 2307.HK), a manufacturer of knitted fabrics and color yarn from April 2005 to May 2016, with her last position as the financial manager. She also served as the accounting manager of Donlink Group Company Limited (東凌集團有限公司) from June 2016 to January 2020. Ms. Xie has also been serving as (i) a director of Guangdong Gushengtang since August 2021; (ii) the general manager of Guangzhou Bailitiaoyi Consultancy Co., Ltd. (廣州百裡挑一諮詢有限公司), Sichuan Gusheng Pharmaceutical Co., Ltd. (四川固生藥業有限公司) and Sichuan Gusheng Medical Management Co., Ltd. (四川固生醫療管理有限公司) since December 2021; and (iii) a supervisor of various members of the Group, including but not limited to Guangzhou Tianhe District Gushengtang Healthcare Out-patient Department Co., Ltd. (廣州天河區固生堂醫療門診部有限公司) since September 2021, Guangzhou Haizhu District Gushengtang TCM Out-patient Department Co., Ltd. (廣州市海珠區固生堂中醫門診部有限公司) since September 2021, and Beijing Gushengtang Panjiayuan TCM Hospital Co., Ltd. (北京固生堂潘家園中醫醫院有限公司) since November 2021.

Ms. Xie was accredited as an intermediate accountant (中級會計師) by the Ministry of Finance of the People's Republic of China in September 2003, and a senior accountant (高級會計師) by Guangzhou Municipal Human Resources and Social Security Bureau in April 2021. Ms. Xie received her bachelor's degree in management from South China University of Technology (華南理工大學) in September 2005. She was also admitted by The Chinese University of Hong Kong, Shenzhen in May 2021 to study business management and is currently a candidate for a master degree.

Ms. Ho Yin Kwan (何燕群), was appointed as one of the joint company secretaries of our Company on July 5, 2022. Ms. Ho is a vice president of SWCS Corporate Services Group (Hong Kong) Limited. She has over 20 years of professional experience in corporate secretarial field and has been providing corporate secretarial services to both listed and private companies incorporated in Hong Kong and overseas. Ms. Ho holds a bachelor's degree in business and finance from the University of Portsmouth and a master's degree in corporate governance from the Open University of Hong Kong (currently known as Hong Kong Metropolitan University). Ms. Ho is a member of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom.

The Board is pleased to present the Directors' report of the Company for the Reporting Period.

COMPANY INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act of the Cayman Islands on May 8, 2014. The name of our Company was changed from "Gushengtang (Cayman) Ltd." to "GUSHENGTANG HOLDINGS LIMITED (固生堂控股有限公司)" on September 24, 2021. The Shares of the Company were listed on the Main Board of the Stock Exchange on December 10, 2021.

PRINCIPAL ACTIVITIES

The Group is a TCM healthcare service provider in China. Through our offline medical institutions and online healthcare platforms, the Group provides customers with a comprehensive range of TCM healthcare services and products to address their diverse medical and healthcare management needs during the year ended December 31, 2022.

RESULTS

The results of the Group for the year ended December 31, 2022 are set out in the section headed "Management Discussion and Analysis" of this annual report and the consolidated financial statements on pages 177 to 285.

BUSINESS REVIEW AND FUTURE DEVELOPMENT

The review of the Group's business during the year ended December 31, 2022, which includes an analysis of the Company's performance using financial key performance indicators, particulars of important events affecting the Company during the year, and an indication of likely future developments in the Company's business are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. Discussions on the Group's environmental policies and performance, the Group's compliance with the relevant laws and regulations that have a significant impact on the Group, and the Group's key relationships with its employees, customers and suppliers and others that have a significant impact on the Group and on which the Group's success depends are set out in the section headed "Environmental, Social and Governance Report" of this annual report. The Group's financial risk management objectives and policies are set out in Note 38 to the consolidated financial statements. There is no subsequent event after the Reporting Period which has material impact to the Group. These discussions form part of this Directors' report.

FINAL DIVIDENDS

The Board does not recommend the distribution of a final dividend for the fiscal year ended December 31, 2022. The Group is not aware of any arrangement under which a Shareholder has waived or agreed to waive any dividends.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year ended December 31, 2022 are set out in Note 13 to the consolidated financial statements.

BANK AND OTHER BORROWINGS

Details of bank and other borrowings are set out in the section of "Management Discussion and Analysis" of this annual report and in Note 25 to the consolidated financial statements.

RESERVE AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company during the year ended December 31, 2022 are set out in Note 39 to the consolidated financial statements. As at December 31, 2022, the distributable reserve of the Company amounted to approximately RMB1,478.2 million.

SHARE CAPITAL

Details of the movements in the share capital of the Group during the year are set out in Note 27 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to its existing Shareholders.

DIRECTORS

The Directors during the year ended December 31, 2022 and up to the date of this annual report were as follows:

Executive Director

Mr. Tu *(Chairman)*

Non-executive Directors

Mr. Jiang Xiaodong
Mr. Huang Jingsheng
Mr. Xu Yongjiu
Mr. Liu Kanghua
Mr. Gao Jian

Independent Non-executive Directors

Ms. Jin Xu
Mr. Li Tie
Mr. Wu Taibing

The biographical details of the Directors and the senior management of the Company are set out in the section headed "Directors and Senior Management" of this annual report.

In accordance with Article 109 of the Articles of Association, Mr. Jiang Xiaodong, Mr. Gao Jian and Ms. Jin Xu shall retire by rotation at the forthcoming AGM and being eligible, have offered themselves for re-election at the forthcoming AGM.

DIRECTORS' SERVICE CONTRACT AND LETTERS OF APPOINTMENT

The executive Director has entered into a service contract with the Company and each of the non-executive Directors and independent non-executive Directors has entered into a letter of appointment with the Company. The service contract and the letters of appointment are subject to termination in accordance with their respective terms and may be renewed in accordance with the Articles of Association and the applicable Listing Rules. None of the Directors proposed for re-election at the forthcoming AGM has entered into a service contract or a letter of appointment with the Company or any of its subsidiaries which is not determinable by the employer within one year without payment of compensation, other than statutory compensation.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation in writing of their perspective independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that, as at the date of this annual report, all of the independent non-executive Directors are independent.

PERMITTED INDEMNITY PROVISION

The Articles of Association provide that every Director shall be entitled to be indemnified out of the assets of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses as a result of any act or failure to act in carrying out his/her functions. Such provisions were in force during the course of the financial year ended December 31, 2022 and remained in force as at the date of this annual report.

The Company has also arranged an appropriate liability insurance for its Directors and officers.

EMPLOYEES AND REMUNERATION POLICY

The Company had 1,907 employees as at the end of the year ended December 31, 2022 as compared to 1,661 employees as at December 31, 2021. The Company entered into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits and liabilities for breaches and grounds for termination.

Remuneration packages for employees mainly comprise base salary and performance-based bonus. The Group sets performance targets for employees primarily based on their position and department and periodically review their performance. The results of such reviews are used in their salary determinations, bonus awards and promotion appraisals. To maintain and enhance the knowledge and skill levels of our workforce, employees are provided with internal training, including orientation programs for new employees and technical training for existing employees. External training opportunities are available to our management team and medical professionals. Remuneration of the Company's employees, including Directors, includes basic salaries, allowances, bonus and other employee benefits, and is determined with reference to their experience, qualifications and general market conditions.

The Group only operates defined contribution pension plans. The employees of the Group's subsidiaries which operate in China are required to participant in a state-sponsored retirement plan operated by the local municipal government. The subsidiaries operating in China are required to contribute to the state-sponsored retirement plan for all their China employees at certain percentages of the basic salaries predetermined by the local governments. The subsidiaries registered in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries in accordance with the rules of the MPF Scheme.

No forfeited contribution (by the Group on behalf of its employees who leave the scheme prior to vesting fully in such contributions) is available to be utilized by the Group to reduce the contributions payable in the future years or to reduce the Group's existing level of contributions to the state-sponsored retirement plan or the MPF Scheme.

Details of our retirement benefit plans are set out in Notes 2.4 and 7 to the consolidated financial statements.

DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

The remuneration of Directors is reviewed by the Remuneration Committee and determined by the Board, having regard to the Group's operating results, individual performance and prevailing market condition. The remuneration of all Directors is subject to regular monitoring by the Remuneration Committee to ensure that the levels of their remuneration and compensation are appropriate. No Director or any of his or her associates was involved in deciding his or her own remuneration.

Further details of the Directors' emoluments and the top five highest paid employees required to be disclosed under Appendix 16 of the Listing Rules are set out in Notes 8 and 9 to the consolidated financial statements.

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

As at December 31, 2022, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be (i) 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 are taken or deemed to have under such provisions of the SFO), or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO, or (iii) notified to the Company and the Stock Exchange under the Model Code, were as follows:

(i) Interests in the Shares of the Company

Name	Nature of interest	Long/short position	Number of Shares	Approximate percentage of interest in the total share capital of the Company (1)
Mr. Tu (2)(3)(4)(5)	Interest in controlled corporations	Long position	30,043,777	13.04%
	Interest of a party to an agreement regarding interest in the Company	Long position	28,518,287	12.38%
	Protector and power holder of a discretionary trust	Long position	18,733,795	8.13%
	Beneficial owner	Long position	11,330,176	4.92%
Jiang Xiaodong (6)	Interest in controlled corporations	Long position	13,231,505	5.74%
Huang Jingsheng (7)(8)	Trustee	Long position	300,000	0.13%
	Interest of spouse	Long position	936,094	0.41%

Notes:

(1) As at December 31, 2022, the total number of issued Shares was 230,396,458.

(2) Each of Action Thrive and Celestial City is wholly owned by Mr. Tu. Therefore, Mr. Tu is deemed to be interested in the Shares directly held by Action Thrive and Celestial City.

(3) Pursuant to the Voting Deeds, Mr. Tu has controlled an aggregate of 12.38% of the voting power at general meeting of the Company, being the voting rights attached to all Shares directly held by Gushengtang Ltd., Shiyimianshan Holdings Limited, Shiermianshan Holdings Limited, Shisanmianshan Holdings Limited, Shisimianshan Holdings Limited, Shiwumianshan Holdings Limited, Yijiakang Technology Holdings Limited, Yijiajian Technology Holdings Limited, Yijiale Technology Holdings Limited and Yijiaan Technology Holdings Limited.

(4) Dream True is a company incorporated in the British Virgin Islands, and is wholly-owned by Tu Family Holdings Limited, which is further wholly owned by Frandor Limited. Frandor Limited is wholly-owned by Trident Trust Company (Singapore) Pte. Limited, which is the trustee of the TZL Family Trust, of which Mr. Tu is the protector and the power holder. As such, Mr. Tu a is deemed to be interested in the Shares held by Dream True.

(5) Mr. Tu's entitlement to receive up to 11,330,176 Shares pursuant to the exercise of options granted to him under the Pre-IPO Share Option Plan, subject to the vesting and other conditions of those options.

(6) The general partner of both of Long Hill Capital Venture Partners 1 Plus, L.P. and Long Hill Capital Venture Partners GST, L.P. is Long Hill Capital Venture Partners GP 1 Plus, L.P., whose general partner is Long Hill Capital Venture Partners GP 1 Plus, Ltd. The general partner of Long Hill Capital Venture Partners 1, L.P. is Long Hill Capital Venture Partners GP 1, L.P., whose general partner is Long Hill Capital Venture Partners GP 1, Ltd. Mr. Jiang Xiaodong ultimately controls both of Long Hill Capital Venture Partners GP 1 Plus, Ltd. and Long Hill Capital Venture Partners GP 1, Ltd. As such, Mr. Jiang Xiaodong is deemed to be interested in the 13,231,505 Shares held by Long Hill Capital Venture Partners 1 Plus, L.P., Long Hill Capital Venture Partners GST, L.P. and Long Long Hill Capital Venture Partners 1, L.P.

(7) Mr. Huang Jingsheng is one of the trustees of The Jingsheng Huang 2006 Irrevocable Family Trust and therefore is deemed to be interested in the Shares directly held by The Jingsheng Huang 2006 Irrevocable Family Trust.

(8) HI Equity Limited is wholly owned by Ms. Han Pei, the spouse of Mr. Huang Jingsheng. As such, Mr. Huang Jingsheng is deemed to be interested in the Shares directly held by HI Equity Limited.

(ii) Interest in associated corporation of the Company

Name	Name of associated corporation	Nature of interest	Long/short position	Number of Shares held	Approximate percentage of shareholding
Mr. Tu	Guangdong Gushengtang (1)	Beneficial owner	Long position	10,970,303	30%

Note:

(1) Guangdong Gushengtang is a subsidiary of the Company by virtue of the Contractual Arrangements.

Save as disclosed above, so far as the Directors are aware, as at December 31, 2022, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) 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 are taken or deemed to have under such provisions of the SFO), or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO, or (iii) notified to the Company and the Stock Exchange under the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at December 31, 2022, the following persons (other than the Directors and chief executives of the Company) had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company, pursuant to Section 336 of the SFO:

Name	Nature of interest	Long/short position	Number of Shares	Approximate percentage of interest in the total share capital of the Company [1]
Wumianshan Ltd. [2]	Interest in controlled corporations	Long position	30,043,777	13.04%
Action Thrive [2]	Beneficial owner	Long position	26,832,533	11.65%
Dream True [3]	Beneficial owner	Long position	18,733,795	8.13%
Tu Family Holdings Limited [3]	Interest in controlled corporations	Long position	18,733,795	8.13%
Frandor Limited [3]	Interest in controlled corporations	Long position	18,733,795	8.13%
Trident Trust Company (Singapore) Pte. Limited [3]	Trustee	Long position	18,733,795	8.13%
Gushengtang Ltd.	Beneficial owner	Long position	15,571,267	6.76%
Starr International Investments HK V, Limited [4]	Beneficial owner	Long position	13,548,109	5.88%
Starr International Company, Inc. [4]	Interest in controlled corporations	Long position	13,548,109	5.88%
Starr International Foundation [4]	Interest in controlled corporations	Long position	13,548,109	5.88%
Asia Ventures III L.P. [5]	Beneficial owner	Long position	12,240,475	5.31%
Asia Partners III L.P. [5]	Interest in controlled corporations	Long position	12,240,475	5.31%
Eight Roads GP [5]	Interest in controlled corporations	Long position	13,037,605	5.66%
Eight Roads GP Asia Limited [5]	Interest in controlled corporations	Long position	13,037,605	5.66%

Notes:

(1) As at December 31, 2022, the total number of issued Shares was 230,396,458.

(2) Each of Action Thrive and Celestial City is wholly owned by Wumianshan Ltd. Therefore, Wumianshan Ltd. is deemed to be interested in the Shares directly held by Action Thrive and Celestial City.

(3) Dream True is a company incorporated in the British Virgin Islands, and is wholly-owned by Tu Family Holdings Limited, which is further wholly-owned by Frandor Limited. Frandor Limited is wholly-owned by Trident Trust Company (Singapore) Pte. Limited, which is the trustee of the TZL Family Trust, of which Mr. Tu is the protector and the power holder. As such, each of Tu Family Holdings Limited, Frandor Limited and Trident Trust Company (Singapore) Pte. Limited is deemed to be interested in the Shares held by Dream True.

(4) Starr International Investments HK V, Limited is wholly owned by Starr International Company, Inc., a Swiss corporation, which is in turn owned by Starr International Foundation, a Swiss charitable foundation. As such, under the SFO, each of Starr International Company, Inc. and Starr International Foundation is deemed to be interested in the 13,548,109 Shares held by Starr International Investments HK V, Limited.

(5) The general partner of Asia Ventures III L.P. is Asia Partners III L.P., whose general partner is Eight Roads GP. Further, the general partner of ERVC Healthcare IV, L.P. is ERVC Healthcare Advisors IV, LP, whose general partner is Eight Roads GP. Eight Roads GP Asia Limited is the sole shareholder of Eight Roads GP. As such, under the SFO, Asia Partners III L.P. is deemed to be interested in the 12,240,475 Shares held by Asia Ventures III L.P., and Eight Roads GP and Eight Roads GP Asia Limited is deemed to be interested in the 13,037,605 Shares held by Asia Ventures III L.P. and ERVC Healthcare IV, L.P.

Save as disclosed above, as at December 31, 2022, the Company had not been notified by any person (other than the Directors or the chief executives of the Company) who had an interest or short position in the Shares or the underlying Shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the paragraphs headed "SHARE INCENTIVE SCHEMES" below, neither the Company nor any of its subsidiaries was a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate at the end of the year or at any time during the year ended December 31, 2022 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.

CHANGES IN INFORMATION OF DIRECTORS

So far as the Directors are aware and save as disclosed in this annual report, there has been no other change of information of Directors since the publication of the interim report for the six months ended June 30, 2022 up to the date of this annual report pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Xu Yongjiu, the non-executive Director of the Company, has been a director of Chongqing Hedaotang Medicine Co., Ltd. (重慶合道堂醫藥有限公司) ("**Chongqing Hedaotang**"), a company principally engaged in TCM healthcare services from July 2019 to July 2022. The Directors are of the view that there is no material competition between Chongqing Hedaotang and the Group arising from Mr. Xu's directorship in Chongqing Hedaotang during the period from January 2022 to the cessation of such directorship for the following reasons:

1. Chongqing Hedaotang only operated its business in Chongqing, where the Group has not commenced its healthcare business during such period;

2. Mr. Xu did not control the board of Chongqing Hedaotang nor the appointment of the directors thereof during such period;

3. Mr. Xu served as a non-executive director in both the Company and Chongqing Hedaotang, and was not involved in the daily management of these two companies during such period; and

4. the Company had appointed three independent non-executive Directors, representing one-third of the members of the Board to balance any potential conflict of interests in order to safeguard the interests of the Group and the Shareholders as a whole.

Save as disclosed above, during the year ended December 31, 2022 and up to the date of this annual report, none of the Directors or their respective associates had engaged in or had any interest in a business, apart from business of the Group, which competes or is likely to compete with the business of the Group, whether directly or indirectly, or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, no transactions, arrangements or contracts of significance in relation to the Company's business to which the Company, or any of its subsidiaries was a party and in which a director of the Company or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2022.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions" of this annual report, there was no contract of significance (whether for the provision of services to the Company or not) in relation to the Group's business to which the Group was a party and in which any Controlling Shareholder or any of its subsidiary corporations had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2022.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group is subject to various PRC laws and regulations in the course of daily operation. For details, please refer to the section headed "Regulatory Overview" of the Prospectus.

During the year ended December 31, 2022, the Group has complied with relevant laws and regulations that have a significant impact on the operations of the Group. In addition, relevant employees and relevant operating units are reminded from time to time of paying attention to material changes in applicable laws, provisions and regulations.

PRINCIPAL RISKS AND UNCERTAINTIES

Principal risks and uncertainties facing the Group include, among others, that:

1. misinterpretation or misapplication of or failure to identify the existing regulatory requirements or the evolving regulatory requirements may result in non-compliance and may materially and adversely affect our business and prospects;

2. if the Group does not compete successfully against new or existing competitors in the industries where the Group operates, its business, financial condition and results of operations may be materially and adversely affected;

3. if the Group's medical service network is unable to recruit and retain a sufficient number of qualified physicians and other medical professionals, in particular, network physicians who contributed a vast majority of the revenue during the year, the Group's business and results of operations could be materially and adversely affected;

4. if the Group fails to properly manage the employment and service of its physicians, other medical professionals and employees, it may be subject to penalties against our medical service network, which could materially and adversely affect its business and results of operations; and

5. the Group has recognized a large amount of goodwill. If the goodwill was determined to be impaired, it could adversely affect the Group's results of operations and financial position.

RELATIONSHIPS WITH KEY STAKEHOLDERS

The Group actively communicates with stakeholders such as customers, employees, investors and shareholders, governments and regulatory agencies, suppliers and partners, and attaches great importance to the suggestions and feedback of stakeholders, and regards them as an important basis for the Group to improve operations management and sustainable development standards. To fully listen to the voices of stakeholders, the Group has established a variety of communication channels to ensure open and transparent information and efficient communication processes.

The Group is fully aware that communication with stakeholders is an important and continuous process. In the future, the Group will continue to improve the communication mechanism, actively respond to the demands of stakeholders, optimize the management and operation standards of the Company, and enhance the sustainable development performance of it.

CONNECTED TRANSACTIONS

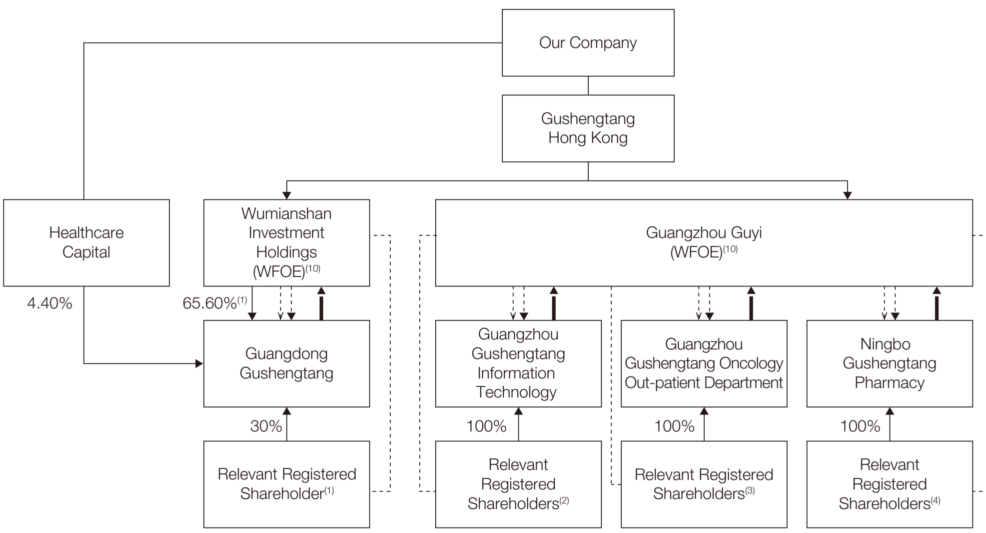
Non-Exempt Continuing Connected Transaction

Contractual Arrangements

Background

In light of the restrictions under current PRC laws and regulations, which the investment in certain areas of the industries in which the Group currently operates and may operate are subject to, and in order to control the Consolidated Affiliated Entities to prevent leakages of equity and values to the relevant Registered Shareholders of the Consolidated Affiliated Entities, except for the Group, and to obtain the maximum economic benefits from the Consolidated Affiliated Entities, on November 26, 2020, December 21, 2020, January 19, 2021 and April 6, 2021, the Group, through WFOEs, entered into the Contractual Arrangements with the Consolidated Affiliated Entities and the Registered Shareholders of the Consolidated Affiliated Entities. The Contractual Arrangements enable the Group to (i) receive substantially all of the economic benefits from the Consolidated Affiliated Entities in consideration for the services provided by the WFOEs to the Consolidated Affiliated Entities; (ii) exercise effective control over the Consolidated Affiliated Entities; and (iii) hold an exclusive option to purchase all or part of the equity interests in the Consolidated Affiliated Entities when and to the extent permitted by PRC laws and regulations.

The following simplified diagram illustrates the flow of economic benefits from the Consolidated Affiliated Entities to the Group under the Contractual Arrangements.



Notes:

(1) Guangdong Gushengtang is owned by Wumianshan Investment Holdings, Healthcare Capital and Mr. Tu as to 65.60%, 4.40% and 30%, respectively. Healthcare Capital is wholly-owned by the Company.
(2) Guangzhou Gushengtang Information Technology is owned by Yan Jun and Zheng Xiang as to 99% and 1%, respectively.
(3) Guangzhou Gushengtang Oncology Out-patient Department is owned by Yan Jun and Zheng Xiang as to 99% and 1%, respectively.
(4) Ningbo Gushengtang Pharmacy is owned by Yan Jun and Zheng Xiang as to 99% and 1%, respectively.
(5) " ⟶ " denotes direct legal ownership in the equity interest
(6) " - - -> " denotes contractual relationship
(7) " - - -▶ " denotes provision of technical and consultation services
(8) " ━━▶ " denotes payment of service fees
(9) "- - - - -" denotes the control by WFOEs over the Registered Shareholders and the Onshore Holdcos through (i) powers of attorney to exercise all shareholders' rights in the Onshore Holdcos; (ii) exclusive call options to acquire all or part of the equity interests in the Onshore Holdcos; and (iii) equity pledges over the equity interests in the Onshore Holdcos.
(10) Both Wumianshan Investment Holdings and Guangzhou Guyi are mainly engaged in investment management.

Summary of the material terms of the Contractual Arrangements

(1) Exclusive Operation Services Agreements

Under the exclusive operation services agreements dated November 26, 2020, December 21, 2020, January 19, 2021 and April 6, 2021 between the Onshore Holdcos and the WFOEs (the "**Exclusive Operation Services Agreements**"), pursuant to which, in exchange for a service fee, the Onshore Holdcos agreed to engage the WFOEs as its exclusive provider of technical, consulting and other services.

Under the Exclusive Operation Services Agreements, the services to be provided include but are not limited to (i) business, financing and investment, (ii) medical technology related consultation, medical resources sharing and medical professionals training, (iii) human resources management, (iv) market research, (v) strategies for marketing and business expansion, (vi) supplier and inventory management, (vii) operation and marketing strategy formulation and monitoring, (viii) medical service quality control, (ix) internal management and (x) other services relating to management and operation of medical institutions and shareholder's rights and investment management.

Under the Exclusive Operation Services Agreements, the service fee shall be an amount equal to the annual distributable profits of the Onshore Holdcos, consisting of approximately 30% of the distributable net profit of Guangdong Gushengtang and 100% of the distributable net profit of each of Guangzhou Gushengtang Information Technology, Guangzhou Gushengtang Oncology Out-patient Department and Ningbo Gushengtang Pharmacy of a given audited financial year, after deducting the losses from the previous financial years (if any) and the statutory contributions (if applicable) subject to the applicable PRC laws and regulations. Apart from the service fees, the Onshore Holdcos and the Registered Shareholders shall reimburse all reasonable costs, reimbursed payments and out-of-pocket expenses incurred by the WFOEs in connection with the performance of the Exclusive Operation Services Agreements and provision of services thereunder.

The Exclusive Operation Services Agreements became effective from signing, and shall remain valid for three years. Subject to compliance with the Listing Rules, the Exclusive Operation Services Agreements shall be automatically renewed for a term of three years upon its expiration, unless terminated in accordance with the terms therein.

The Exclusive Operation Services Agreements can only be terminated in the following events: (i) continued performance of the agreements will result in violation of or non-compliance with the applicable PRC laws and regulations, the Listing Rules or other requirements of the Stock Exchange, (ii) all of the Registered Shareholder's equity interests in the Onshore Holdco and all of the assets of Onshore Holdco have been transferred to the WFOEs or its designated person(s) pursuant to applicable PRC laws and regulations, or (iii) the WFOEs unilaterally terminates the agreements.

(2) Exclusive Options Agreements

On November 26, 2020, December 21, 2020, January 19, 2021 and April 6, 2021, the WFOEs, the Registered Shareholders and the Onshore Holdcos entered into the exclusive option agreements. Further, on November 4 or November 8, 2021, Wumianshan Investment Holdings, each of the onshore operating subsidiaries of Guangdong Gushengtang (the "**Operating Subsidiaries**") and their respective shareholders (the "**Opco Shareholders**") also entered into the exclusive option agreements (collectively, the "**Exclusive Option Agreements**").

Pursuant to the Exclusive Option Agreements, (i) the Registered Shareholders and the Opco Shareholders irrevocably and unconditionally grant an exclusive option to the WFOEs which entitles the WFOEs to elect to purchase at any time, when permitted by the then applicable PRC laws, all or any part of the equity interest in the Onshore Holdcos and the Operating Subsidiaries itself or through its designated person(s), (ii) the Onshore Holdcos and the Operating Subsidiaries irrevocably and unconditionally grant an exclusive option to the WFOEs which entitles the WFOEs to elect to purchase at any time, when permitted by the then applicable PRC laws, all or part of the assets of the Onshore Holdcos and the Operating Subsidiaries itself or through its designated person(s). The transfer price of the relevant equity interests and assets shall be the minimum purchase price permitted under PRC laws. Each of Onshore Holdcos and the Operating Subsidiaries undertake that it will, subject to applicable PRC laws, return in full any amount of the transfer price received to the WFOEs or its designated person(s).

The Registered Shareholders, the Onshore Holdcos, the Opco Shareholders and the Operating Subsidiaries undertake to develop the business of the Onshore Holdcos and the Operating Subsidiaries and not to take any action which may affect their asset value, goodwill and effectiveness of business licenses. The Registered Shareholders, the Onshore Holdcos, the Opco Shareholders and the Operating Subsidiaries further undertake that, upon the WFOEs issuing the notice to exercise the option in accordance with the Exclusive Option Agreements, they will take necessary actions to affect the transfer and relinquish the pre-emptive right (if any). Each of the parties to the Exclusive Option Agreements confirms and agrees that (i) in the event of a dissolution or liquidation of the Onshore Holdcos and the Operating Subsidiaries under the PRC laws, all the residual assets attributable to the Registered Shareholders, the Onshore Holdcos, the Opco Shareholders and the Operating Subsidiaries shall be transferred to the WFOEs or its designated person(s) at the minimum purchase price permitted under PRC laws, and each of the Registered Shareholder, the Onshore Holdcos, the Opco Shareholders and the Operating Subsidiaries undertakes that they will, subject to applicable PRC laws, return in full any amount of the transfer price received to the WFOEs or its designated person(s), (ii) in the event of bankruptcy, reorganization or merger of the Onshore Holdcos, the Registered Shareholder, the Operating Subsidiaries, the Opco Shareholders or any other event which affects the Registered Shareholder's and the Opco Shareholders' shareholding in the Onshore Holdcos and the Operating Subsidiaries, the successor of the Registered Shareholder's and the Opco Shareholders' equity interest in the Onshore Holdcos and the Operating Subsidiaries shall be bound by the Contractual Arrangements, and (iii) any disposal of shareholding in the Onshore Holdcos and the Operating Subsidiaries shall be governed by the Contractual Arrangements unless otherwise with the prior written consent of the WFOEs.

The Exclusive Option Agreements became effective from signing and have an indefinite term unless terminated in the following events: (i) continued performance of the obligations of the agreements will result in violation of or non-compliance with the applicable PRC laws and regulations, the Listing Rules or other requirements of the Stock Exchange, (ii) all of the Registered Shareholder's and Opco Shareholders' equity interests in the Onshore Holdcos and the Operating Subsidiaries are transferred to the WFOEs or its designated person(s) pursuant to the applicable PRC laws and regulations, (iii) all of the assets of the Onshore Holdcos and the Operating Subsidiaries are transferred to the WFOEs or its designated person(s) pursuant to the applicable PRC laws and regulations, or (iv) the WFOEs unilaterally terminate the agreements.

(3) Equity Pledge Agreements

Under (i) the equity pledge agreements dated November 26, 2020, December 21, 2020, January 19, 2021 and April 6, 2021 entered into between the WFOEs, the Registered Shareholders and the Onshore Holdcos and (ii) the equity pledge agreements dated November 4 or November 8, 2021 entered into between Wumianshan Investment Holdings, each of the Operating Subsidiaries and the Opco Shareholders, (collectively, the "**Equity Pledge Agreements**"), the Registered Shareholders and the Opco Shareholders agreed to pledge all their respective equity interests in the Onshore Holdcos and the Operating Subsidiaries that they own, including any interest or dividend paid for the shares, to the WFOEs as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts.

If the Onshore Holdcos and the Operating Subsidiaries declare any dividend during the term of the equity pledge, the WFOEs are entitled to receive all dividends or other income arising from the equity interests pledged (if any).

Pursuant to the Equity Pledge Agreements, each of the Registered Shareholders, Onshore Holdcos, the Operating Subsidiaries and the Opco Shareholders undertake to the WFOEs, among others, not to transfer their equity interests pledged and not to create or allow any pledge or encumbrance thereon that may affect the right and interest of the WFOEs without their prior written consent. The Onshore Holdcos and the Operating Subsidiaries further undertake to the WFOEs not to consent to any transfer the equity interests pledged or to create or allow any pledge or encumbrance thereon without the WFOEs' prior written consent.

The pledges in respect of the Onshore Holdcos and the Operating Subsidiaries take effect upon the completion of registration with the relevant administration for industry and commerce and shall remain valid until after all the contractual obligations of the Registered Shareholders and the Onshore Holdcos under the relevant Contractual Arrangements have been fully performed and all the outstanding debts of the Registered Shareholder and Onshore Holdcos under the relevant Contractual Arrangements have been fully paid.

The registration of the Equity Pledge Agreements entered into between WFOEs, the Registered Shareholders and the Onshore Holdcos have been completed on June 7, 2021 and June 8, 2021, respectively. As at the date of this annual report, the registration of the Equity Pledge Agreements entered into between Wumianshan Investment Holdings, each of the Operating Subsidiaries and Opco Shareholders have also been completed.

(4) Entrustment Agreements and Powers of Attorney

On November 26, 2020, December 21, 2020, January 19, 2021 and April 6, 2021, the WFOEs, the Registered Shareholders and the Onshore Holdcos entered into a shareholders' rights entrustment agreements (the "**Entrustment Agreements**") and the powers of attorney (the "**Powers of Attorney**") were executed by the each of Registered Shareholders, Onshore Holdcos on November 26, 2020, December 21, 2020, January 19, 2021 and April 6, 2021, in favor of the WFOEs (the "**Attorney**").

Pursuant to the Entrustment Agreements and the Powers of Attorney, the Registered Shareholders irrevocably authorize the Attorney to exercise all of its rights and powers as a shareholder of the Onshore Holdcos, including without limitation:

1. to attend shareholders' meetings of the Onshore Holdcos and to execute any and all written resolutions and meeting minutes in the name and on behalf of such shareholder;

2. to file documents with the relevant companies registry;

3. to exercise all shareholder's rights and shareholder's voting rights in accordance with PRC laws and the constitutional documents of the Onshore Holdcos, including but not limited to the sale, transfer, pledge or disposal of any or all of the equity interests in the Onshore Holdcos; and

4. to nominate or appoint the legal representatives, directors, supervisors, general manager and other senior management of the Onshore Holdcos.

As the WFOEs are indirect wholly-owned subsidiaries of the Company, the terms of the Entrustment Agreements and the Powers of Attorney give the Company full control over all corporate decisions made by such Attorney and exercise management control over the Onshore Holdcos.

The Entrustment Agreements and Powers of Attorney became effective from signing and have an indefinite term unless terminated in the following events: (i) continued performance of the obligations of the agreements will result in violation of or non-compliance with the applicable PRC laws and regulations, the Listing Rules or other requirements of the Stock Exchange, (ii) all of the Registered Shareholder's equity interests in Onshore Holdcos are transferred to the WFOEs or its designated person(s) pursuant to the applicable PRC laws and regulations, (iii) all of the assets of the Onshore Holdcos are transferred to the WFOEs or its designated person(s) pursuant to the applicable PRC laws and regulations, or (iv) the WFOEs unilaterally terminates the agreements.

(5) Spouse Undertakings

The spouse of each of the Registered Shareholders, where applicable, has signed an undertaking (the "**Spouse Undertakings**") to the effect that (i) the respective Registered Shareholders' interests in the respective Onshore Holdcos (together with any other interests therein) do not fall within the scope of communal properties, and (ii) he/she has no right to or control over such interests of the respective Registered Shareholder and will not have any claim on such interests.

Significance and financial contributions of the Consolidated Affiliated Entities to the Group

The Consolidated Affiliated Entities are principally engaged in providing TCM healthcare service or online TCM healthcare solutions. Pursuant to the Contractual Arrangements, the Group obtains control over and derives the economic benefits from the Consolidated Affiliated Entities. The table below sets out the financial contribution of the Consolidated Affiliated Entities to the Group:

	Revenue for the year ended December 31, 2022	Net profit* for the year ended December 31, 2022	Total assets as at December 31, 2022
Significance and financial contribution to the Group	97.6%	91.3%	73.8%

* Before service fee charged under the Exclusive Operation Services Agreements

Revenue and total assets involved in the Contractual Arrangements

The table below sets out (i) revenue and (ii) total assets involved in the Consolidated Affiliated Entities for the Reporting Period, which would be consolidated into the Group's financial statements pursuant to the Contractual Arrangements:

	Revenue for the year ended December 31, 2022 RMB	Total assets as at December 31, 2022 RMB
Consolidated Affiliated Entities	1,585,494,049	1,921,411,050

Qualification Requirements

The Foreign-invested telecommunication enterprises must comply with the Regulations for the Administration of Foreign invested Telecommunications Enterprises (revised in 2016) (《外商投資電信企業管理規定(2016年修訂)》) (the "**Foreign Investment Telecommunications Rules**") issued by the State Council on December 11, 2001 and further amended on February 6, 2016, which requires foreign-invested telecommunication enterprises to be established as sino-foreign equity joint ventures in which the ultimate proportion of capital contribution from foreign investors shall not exceed 50%. On December 27, 2021, the National Development and Reform Commission and the Ministry of Commerce promulgated the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Edition) (effective on January 1, 2022), pursuant to which the proportion of foreign shares in a value-added telecommunications business shall not exceed 50% (except for e-commerce, domestic multi-party communication, storage and forwarding, and call center). In addition, the foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience and a proven good track record in operating value-added telecommunications businesses (the "**Qualification Requirements**").

Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have been gradually building up our track record of overseas telecommunications business operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests in the Consolidated Affiliated Entities when the relevant PRC laws allow foreign investors to invest and to hold a majority interest in value-added telecommunications enterprises in China, details of the our measures to meet the Qualification Requirements, please refer to "Contractual Arrangements — PRC Regulatory Background" of the Prospectus.

Risks associated with the Contractual Arrangements and measures taken to mitigate the risks

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

(i) if the PRC government deems that the Contractual Arrangements do not comply with the 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 our interests received through the Contractual Arrangements;

(ii) the Contractual Arrangements may result in adverse tax consequences to the Group;

(iii) relevant Registered Shareholders may have potential conflicts of interest with the Group, which may materially and adversely affect its business and financial condition;

(iv) the Contractual Arrangements may not be as effective in providing operational control as direct ownership. Onshore Holdcos and their respective shareholders may fail to perform their obligations under the Contractual Arrangements;

(v) the Group may lose control over Onshore Holdcos and may not enjoy their full economic benefits if Onshore Holdcos declare bankruptcy or become subject to a dissolution or liquidation proceeding;

(vi) if the Group exercises the option to acquire equity ownership of Onshore Holdcos, the ownership or asset transfer may subject the Group to certain limitations and substantial costs; and

(vii) the Group does not maintain any insurance policy which covers the risks relating to the Contractual Arrangements and the transactions contemplated thereunder.

For details, please refer to the section headed "Risk Factors — Risks Relating to the Contractual Arrangements" of the Prospectus.

The Group has adopted the following measures to ensure the effective operation of the Group with the implementation of the Contractual Arrangements and the compliance with the Contractual Arrangements:

(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 as and when they arise;

(ii) the Board 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 and compliance with the Contractual Arrangements in the annual reports; and

(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 the WFOEs and the Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

Material changes in relation to the Contractual Arrangements

During the year ended December 31, 2022, there is no material change in the Contractual Arrangements and/or the circumstances under which they were adopted.

Unwinding the Contractual Arrangements

For the year ended December 31, 2022, none of the Contractual Arrangements had been unwound as none of the restrictions that led to the adoption of the Contractual Arrangements had been removed.

If and when Ministry of Commerce of the PRC (中華人民共和國商務部) and/or other relevant governmental authorities promulgate any measures for the administration of foreign-invested enterprises engaging in TCM medical institutions and value-added telecommunication services business or such entities invested by foreign investors, depending on the maximum percentage of equity interest permitted to be held by foreign investors (if any), the Company will partially unwind the Contractual Arrangements and hold (directly or indirectly) equity interest in the Consolidated Affiliated Entities up to the maximum percentage prescribed by such measures; and if there is no prescribed limit on the percentage of equity interest permitted to be held by foreign investors and the Company would be allowed to directly hold the 100% equity interests in the Consolidated Affiliated Entities, the Company will fully unwind the Contractual Arrangements and directly hold the 100% equity interests in the Consolidated Affiliated Entities.

Listing Rules implications and a waiver from the Stock Exchange

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of the Company under the Listing Rules upon Listing as certain parties to the Contractual Arrangements, namely Mr. Tu and Yan Jun are the members of the Registered Shareholders, are connected persons of the Company.

The Stock Exchange has granted a waiver to the Company from strict compliance with (i) the announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of 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 to certain conditions. For details, please refer to the section headed "Connected Transactions — Waiver Applications for Non-Exempt Continuing Connected Transaction" in the Prospectus.

Save as disclosed above, during the year ended December 31, 2022, the Group has not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Rule 14A.71 of the Listing Rules. The Company has complied with the disclosure requirements set out in Chapter 14A of the Listing Rules.

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

During the Reporting Period, the independent non-executive Directors have reviewed the above Contractual Arrangements and confirmed that the Contractual Arrangements have:

(i) been entered into in the usual and ordinary course of business of the Group;

(ii) been conducted based on normal or better commercial terms; or been entered into based on the terms no less favorable than those available from or provided by independent third parties; and

(iii) been carried out according to the agreements for related transactions with terms that are fair and reasonable and in line with the interests of the shareholders as a whole.

During the Reporting Period, independent non-executive Directors have also reviewed the above Contractual Arrangements and confirmed that:

(i) the transactions carried out during the year ended December 31, 2022 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 Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and

(iii) any new contracts entered into, renewed or reproduced between the Group and the Consolidated Affiliated Entities are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the Shareholders as a whole.

The Auditor has reviewed the transactions carried out pursuant to the Contractual Arrangements during the year ended December 31, 2022 and advised the Board in writing (with a copy provided to the Stock Exchange) that nothing has come to their attention that causes them to believe (i) the transactions have not been approved by the Board; (ii) the transactions have not been entered into, in all material aspects, in accordance with the relevant agreements governing such transactions; and (iii) the dividends or other distributions had been made by the Consolidated Affiliated Entities to the holders of its equity interests which were not otherwise subsequently assigned or transferred to the Group.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Company conducted during the year ended December 31, 2022 are set out in Note 34 to the consolidated financial statements.

Save for the transaction disclosed in the paragraphs headed "CONNECTED TRANSACTIONS" in this annual report, none of the other related party transactions constitute a connected transaction or continuing connected transaction subject to independent shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

TAX RELIEF AND EXEMPTION

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to environmental protection and promoting corporate social responsibility and best corporate governance practices for the sustainable development and take up responsibilities as a corporate citizen. The Group has established environmental, social and governance ("**ESG**") policies which set forth our environmental protection measures, social responsibility principles and internal governance.

The Directors have overall responsibility regarding environmental, social and climate-related risks, ensuring that our relevant policies are duly implemented and have continuous updates for full compliance with the latest laws, regulations and standards. The Directors also support our commitment to fulfill its environmental and social responsibility, for which they are responsible for identification, assessment and management of our ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place.

Details of our ESG performance during the year ended December 31, 2022 are set out in sections headed "Environmental, Social and Governance Report" of this annual report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed for the year ended December 31, 2022.

SHARE INCENTIVE SCHEMES

Pre-IPO Share Option Plan

The following is a summary of the principal terms of the Pre-IPO Share Option Plan effective from March 31, 2021. The terms of the Pre-IPO Share Option Plan are not subject to the provisions of Chapter 17 of the Listing Rules as the Pre-IPO Share Option Plan will not involve the grant of options by us to subscribe for Shares after the listing of Shares on the Stock Exchange.

1. **Purpose**

   The purpose of the Pre-IPO Share Option Plan is to promote the success and enhance the value of the Company by linking the personal interests of the eligible participants to those of the Shareholders and by providing such individuals with an incentive to generate superior returns to the Shareholders through their outstanding performance. The Pre-IPO Share Option Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of directors, senior managers, other employees and individuals upon whose judgment, interest, contribution and special effort the successful conduct of the Company's operation is largely dependent.

2. **Who may join**

   The Board (which expression shall, for the purpose of this paragraph, include a duly authorized committee thereof) may determine any directors, senior management and employees of the Company and its subsidiaries, and core experts (who are our network physicians) providing services to the Company (the "**Pre-IPO SOP Grantees**"), who the Board considers, in its sole discretion, have contributed to the Group, to take up options (the "**Pre-IPO SOP Options**") to subscribe for Shares.

3. **Scheme limit and Shares available for issue**

   The total number of Shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Pre-IPO Share Option Plan and any other share option plan of our Group) to be granted under the Pre-IPO Share Option Plan and any other share option plan of our Group must not in aggregate exceed 16,382,286 Shares, representing 7.11% of the total issued Shares on the day on which the trading of the Shares commence on the Main Board.

   As at the date of this annual report, the total number of Shares available for issue upon the exercise of the options granted under the Pre-IPO Share Option Plan was 16,382,286, representing 6.80% of the total issued Shares as at the date of the annual report.

4. **Subscription price for Shares**

The subscription price in relation to each Share issued pursuant to the exercise of options granted under the Pre-IPO Share Option Plan shall be determined by the Board at its discretion and set out in the relevant grant letter.

A nominal consideration of HK$1.00 is payable by a Pre-IPO SOP Grantee upon acceptance of the grant of the Pre-IPO SOP Options.

5. **Time of acceptance and exercise of option**

A Pre-IPO SOP Option may be accepted by a participant for such period as the Board may determine and notify to the Pre-IPO SOP Grantee concerned in the relevant grant letter.

The Pre-IPO SOP Option must be exercised, if at all, within ten (10) years upon the date on which it becomes exercisable after which it will lapse.

6. **Period of the Pre-IPO Share Option Plan**

The Pre-IPO Share Option Plan shall be valid and effective for a period commencing on March 31, 2021 and ending on November 20, 2021 being the latest practicable date prior to the printing of the Prospectus for the purpose of ascertaining certain information contained in the Prospectus, after which no further options shall be offered or granted, but in all other respects the provisions of the Pre-IPO Share Option Plan shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Pre-IPO Share Option Plan.

7. **Movements in Pre-IPO SOP Options**

Name of Pre-IPO SOP Grantee(s)	Role	No. of Options outstanding as at January 1, 2022	Number of Options granted during the year	Exercise price (per Share)	Date of grant	Vesting period	No. of Options outstanding as at December 31, 2022
Mr. Tu	Executive Director, Chairman, chief executive officer, and one of our Controlling Shareholders	818,711 8,815,348 1,696,117	–	RMB15.53 RMB15.53 US$0.35	November 9, 2021	N/A [3] N/A [4] N/A [3]	818,711 8,815,348 1,696,117
Deng Shigang	Chief financial officer	1,094,504	–	US$0.35	November 9, 2021	5 years [5]	1,094,504
Yan Jun	Vice president	3,957,606	–	US$0.35	November 9, 2021	N/A [3]	3,957,606

Notes:

1. The exercise period of the Pre-IPO SOP Options granted under Pre-IPO Share Option Plan shall commence from the date on which the relevant Pre-IPO SOP Options become vested and end on the 10th anniversary upon the date on which they become exercisable, subject to the terms of the Pre-IPO Share Option Plan and the grant letter signed by the Pre-IPO SOP Grantee.

2. The closing price of the Shares immediately before the date on which the options were granted was not applicable as the Company was not yet listed at the time of the grants.

3. The relevant options are vested on the Listing Date.

4. The relevant options are vested when (i) Mr. Tu has been serving as the chief executive office of the Company since the Listing Date and (ii) the average market capitalization of the Company in any 90 consecutive days period within five anniversary years upon the Listing Date, based on the closing price of the Share on the Stock Exchange, has reached RMB15 billion.

5. The relevant options will be evenly vested in five years if the average market capitalization of the Company in any 90 consecutive days period within five anniversary years upon the Listing Date, based on the closing price of the Share on the Stock Exchange, has reached RMB15 billion.

6. During the year ended December 31, 2022, no Pre-IPO SOP Options was exercised, cancelled or lapsed under the Pre-IPO Share Option Plan.

Post-IPO Share Option Scheme

Post-IPO Share Option Scheme was adopted by the Company on December 7, 2022 and has taken effect from the even date. Post-IPO Share Option Scheme is subject to Chapter 17 of the Listing Rules. The following is a summary of the principal terms of the Post-IPO Share Option Scheme. For further details of the Post-IPO Share Option Scheme, please refer to the Circular.

1. Purpose

The purpose of the Post-IPO Share Option Scheme is to provide incentives and/or rewards to Eligible Participants for their contributions to, and continuing efforts to promote the interests of, the Group and to enable the Group to recruit and retain talents.

2. Eligible participants

Eligible participants under the Post-IPO Share Option Scheme include (i) Employee Participants; and (ii) Service Providers who the Board or the committee duly appointed by the Board for the purpose of administering the Post-IPO Share Option Scheme considers, in its sole discretion, have the eligibility as set out in the Circular.

3. Maximum number of Shares available for subscription

The total number of Shares which may be issued in respect of all options and awards to be granted under the Post-IPO Share Option Scheme and any other Share Schemes must not in aggregate exceed 10% of the total number of Shares in issue as at the date of adoption of Post-IPO Share Option Scheme (the "**Post-IPO SOS Mandate Limit**").

The total number of Shares which may be issued in respect of all options and awards to be granted to all Service Providers under the Share Schemes must not in aggregate exceed 6% of the total number of Shares in issue as at the date of adoption of Post-IPO Share Option Scheme (the "**Post-IPO SOS Service Provider Sublimit**").

For the purposes of calculating the Post-IPO SOS Mandate Limit and the Post-IPO SOS Service Provider Sublimit, options and awards that have already lapsed in accordance with the terms of the Share Schemes shall not be regarded as utilised.

The Post-IPO SOS Mandate Limit and Post-IPO SOS Service Provider Sublimit may be refreshed by the Shareholders in general meeting after three years from the date of Shareholders' approval for the last refreshment (or the adoption of the Post-IPO Share Option Scheme) pursuant to the requirements as set out in the Circular. The Company may also seek separate approval from the Shareholders in general meeting for granting Post-IPO SOS Options which will result in the Post-IPO SOS Mandate Limit being exceeded pursuant to the requirements as set out in the Circular.

4. **Maximum entitlement of each Eligible Participant**

No Post-IPO SOS Option shall be granted to any Eligible Participant ("**Relevant Post-IPO SOS Eligible Participant**") if, at the time of grant, the number of Shares issued and to be issued in respect of all options and awards granted to an Eligible Participant under the Share Schemes in the 12-month period up to and including the date of such offer of the relevant Post-IPO SOS Option would exceed 1% of the total number of Shares in issue as at the date of such offer, unless: (a) such grant has been duly approved, in the manner prescribed by the relevant provisions of Chapter 17 of the Listing Rules, by the Shareholders in general meeting, at which the Relevant Post-IPO SOS Eligible Participant and his close associates (or his associates if the Relevant Post-IPO SOS Eligible Participant is a connected person) abstained from voting; (b) a circular containing the details of the grant has been despatched to the Shareholders in a manner complying with, and containing the information specified in, the relevant provisions of Chapter 17 of the Listing Rules; and (c) the number and terms of such Post-IPO SOS Option are fixed before the general meeting of the Company at which the same are approved.

5. **Grant and acceptance**

Subject to the terms of the Post-IPO Share Option Scheme, the Board or the committee duly appointed by the Board for the purpose of administering the Post-IPO Share Option Scheme shall be entitled (but not bound) at any time within the period of 10 years after the adoption date of the Post-IPO Share Option Scheme to make an offer to any Eligible Participant, as the Board or the committee duly appointed by the Board for the purpose of administering the Post-IPO Share Option Scheme may in its absolute discretion select, to take up a Post-IPO SOS Option pursuant to which such Eligible Participant may, during the option period, subscribe for such number of Shares (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof) as the Board or the committee duly appointed by the Board for the purpose of administering the Post-IPO Share Option Scheme may determine at the subscription price. The Board or the committee duly appointed by the Board for the purpose of administering the Post-IPO Share Option Scheme may in its absolute discretion specify such conditions, restrictions or limitations as it thinks fit when making an offer to an Eligible Participant (including, without limitation, as to the performance targets, clawback mechanism and the vesting period attached to the Post-IPO SOS Options), provided that such conditions shall not be inconsistent with any other terms and conditions of the Post-IPO Share Option Scheme. The number of options and/or vesting conditions attached to such Post-IPO SOS Options will be determined by the Board or the committee duly appointed by the Board for the purpose of administering the Post-IPO Share Option Scheme in its absolute discretion with reference to the job title of the relevant Employee Participants.

An offer shall be deemed to have been accepted by the grantee when the Company receives the duplicate of the offer letter comprising acceptance of the offer duly signed by the grantee with the number of Shares in respect of which the offer is accepted clearly stated therein, together with a remittance of the option price, being the amount of HK$1.00 payable for each acceptance of grant of a Post-IPO SOS Option, to the Company. The Eligible Participant must accept the offer before the date to be specified in the offer letter, which is not later than one month after (i) the offer date, or (ii) the date on which the conditions (if any) for the offer are satisfied, whichever is earlier.

6. **Vesting period**

According to the rules of the Post-IPO Share Option Scheme, the vesting period of Post-IPO SOS Options shall not be less than 12 months, unless the Board or the committee duly appointed by the Board for the purpose of administering the Post-IPO Share Option Scheme determines, in its sole discretion, that the Post-IPO SOS Option granted to an Employee Participant may be subject to a vesting period of less than 12 months in the circumstances where (i) Post-IPO SOS Options are subject to performance-based vesting conditions in lieu of time-based vesting criteria to stimulate the Employee Participants to achieve the relevant performance targets in a shorter period; or (ii) Post-IPO SOS Options are granted in batches during a year for administrative and compliance reasons, in which case, the vesting period may be shorter to reflect the time from which the Post-IPO SOS Option would have been granted. For the avoidance of doubt, the vesting period for Eligible Participants other than Employee Participants shall not be less than 12 months.

7. **Time of exercise of an option**

A Post-IPO SOS Option shall be exercised within a period to be determined and notified by the Board or the committee duly appointed by the Board for the purpose of administering the Post-IPO Share Option Scheme to the grantee and in any event shall be not more than 10 years commencing on the date of offer of the Post-IPO SOS Option and expiring on the last day of such 10-year period.

8. **Subscription price**

Subject to the terms of the Post-IPO Share Option Scheme, the subscription price of Post-IPO SOS Option shall be a price determined by the Board or the committee duly appointed by the Board for the purpose of administering the Post-IPO Share Option Scheme and notified to an eligible participant and shall be at least the highest of: (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of the Post-IPO SOS Option, which must be a business day; (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer of the Post-IPO SOS Option; and (c) the nominal value of a Share.

9. **Duration**

Subject to the terms of the Post-IPO Share Option Scheme, the Post-IPO Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption of Post-IPO Share Option Scheme, after which period no further options under Post-IPO Share Option Scheme shall be granted. Subject to the above, in all other respects, in particular, in respect of Post-IPO SOS Options remaining outstanding on the expiration of the 10-year period, the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect. The remaining life of the Post-IPO Share Option Scheme is approximately 9.6 years.

Since the adoption date of the Post-IPO Share Option Scheme (being December 7, 2022), no Post-IPO SOS Options have been granted, exercised, cancelled or lapsed pursuant to the Post-IPO Share Option Scheme. As at both December 7, 2022, being the date of adoption of the Post-IPO Share Option Scheme, and December 31, 2022, the total number of Post-IPO SOS Options available for grant under the Post-IPO SOS Mandate Limit is 23,039,645 Shares, representing approximately 10% of the total number of issued Shares at the relevant time, and the total number of Post-IPO SOS Options available for grant to the Service Providers under the Post-IPO SOS Service Provider Sublimit is 13,823,787 Shares, representing approximately 6% of the total number of issued Shares at the relevant time. As at the date of this annual report, the total number of shares available for issue under the Post-IPO Share Option Scheme is 23,039,645 Shares, representing approximately 9.57% of the total number of issued Shares.

RSA Scheme (New Shares)

RSA Scheme (New Shares) was adopted by the Company on December 7, 2022 and has taken effect from the even date. RSA Scheme (New Shares) is subject to Chapter 17 of the Listing Rules. The following is a summary of the principal terms of the RSA Scheme (New Shares). For further details of the RSA Scheme (New Shares), please refer to the Circular.

1. Purpose

The purpose of the RSA Scheme (New Shares) is to provide incentives and/or rewards to Eligible Participants for their contributions to, and continuing efforts to promote the interests of, the Group and to enable the Group to recruit and retain talents.

2. Eligible participants

Eligible participants under the RSA Scheme (New Shares) include (i) Management Participants; and (ii) Service Providers, who the Board or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (New Shares) considers, in its sole discretion, have the eligibility as set out in the Circular.

3. Maximum number of Shares available for subscription

The total number of Shares which may be issued in respect of all options and awards to be granted under the RSA Scheme (New Shares) and any other Share Schemes must not in aggregate exceed 10% of the total number of Shares in issue as at the date of adoption of RSA Scheme (New Shares) (the "**RSA Scheme (New Shares) Mandate Limit**").

The total number of Shares which may be issued in respect of all options and awards to be granted to all Service Providers under the Share Schemes must not in aggregate exceed 6% of the total number of Shares in issue as at the date of adoption of RSA Scheme (New Shares) (the "**RSA Scheme (New Shares) Service Provider Sublimit**").

For the purposes of calculating the RSA Scheme (New Shares) Mandate Limit and the RSA Scheme (New Shares) Service Provider Sublimit, options and awards that have already lapsed in accordance with the terms of the Share Schemes shall not be regarded as utilised.

The RSA Scheme (New Shares) Mandate Limit and RSA Scheme (New Shares) Service Provider Sublimit may be refreshed by the Shareholders in general meeting after three years from the date of Shareholders' approval for the last refreshment (or the adoption of the RSA Scheme (New Shares)) pursuant to the requirements as set out in the Circular. The Company may also seek separate approval from the Shareholders in general meeting for granting RSA Scheme (New Shares) Awards which will result in the RSA Scheme (New Shares) Mandate Limit being exceeded pursuant to the requirements as set out in the Circular.

4. **Maximum entitlement of each Eligible Participant**

No RSA Scheme (New Shares) Award shall be granted to any Eligible Participant ("**Relevant RSA Scheme (New Shares) Eligible Participant**") if, at the time of grant, the number of Shares issued and to be issued in respect of all options and awards granted to an eligible participant under the Share Schemes in the 12-month period up to and including the date of such offer of the relevant RSA Scheme (New Shares) Award would exceed 1% of the total number of Shares in issue as at the date of such offer, unless: (a) such grant has been duly approved, in the manner prescribed by the relevant provisions of Chapter 17 of the Listing Rules, by the Shareholders in general meeting, at which the Relevant RSA Scheme (New Shares) Eligible Participant and his close associates (or his associates if the Relevant RSA Scheme (New Shares) Eligible Participant is a connected person) abstained from voting; (b) a circular containing the details of the grant has been despatched to the Shareholders in a manner complying with, and containing the information specified in, the relevant provisions of Chapter 17 of the Listing Rules; and (c) the number and terms of such RSA Scheme (New Shares) Award are fixed before the general meeting of the Company at which the same are approved.

5. **Grant and acceptance**

Subject to the terms of the RSA Scheme (New Shares), the Board or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (New Shares) shall be entitled at any time during the term of the RSA Scheme (New Shares) to make a grant to any Eligible Participant, as the Board or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (New Shares) may in its absolute discretion determine. The Board or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (New Shares) may in its absolute discretion specify such conditions, restrictions or limitations as it thinks fit when making a grant to an Eligible Participant (including, without limitation, as to the performance targets, clawback mechanism and the vesting period attached to the RSA Scheme (New Shares) Award), provided such terms and conditions shall not be inconsistent with any other terms and conditions of the RSA Scheme (New Shares). The terms and conditions of an RSA Scheme (New Shares) Award may be determined at the sole and absolute discretion of the Board or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (New Shares) and may differ among selected participants. In particular, the number of restricted Shares underlying the RSA Scheme (New Shares) Awards and/or vesting conditions attached to such Awards may be determined at the sole and absolute discretion of the Board or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (New Shares) with reference to the job title of the relevant Management Participants.

The consideration (if any) payable by a selected participant for acceptance of the RSA Scheme (New Shares) Award shall be determined with reference, at the sole and absolute discretion of the Board or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (New Shares), to the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day, and shall not be less than the nominal value of a Share and any such consideration shall be paid to the Company or the trustee at the sole and absolute discretion of the Board or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (New Shares).

6. Vesting period

According to the rules of the RSA Scheme (New Shares), the vesting period of RSA Scheme (New Shares) Awards shall not be less than 12 months, unless the Board or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (New Shares) determines, in its sole discretion, that the RSA Scheme (New Shares) Awards granted to a Management Participant may be subject to a vesting period of less than 12 months in the circumstances where (i) RSA Scheme (New Shares) Awards are subject to performance-based vesting conditions in lieu of time-based vesting criteria to stimulate the Management Participants to achieve the relevant performance targets in a shorter period; or (ii) RSA Scheme (New Shares) Awards are granted in batches during a year for administrative and compliance reasons, in which case, the vesting period may be shorter to reflect the time from which the RSA Scheme (New Shares) Awards would have been granted. For the avoidance of doubt, the vesting period for Eligible Participants other than Management Participants shall not be less than 12 months.

7. Consideration

The consideration (if any) payable by a selected Eligible Participant for acceptance of the RSA Scheme (New Shares) Award under the RSA Scheme (New Shares) shall be determined with reference, at the sole and absolute discretion of the Board or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (New Shares), to the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of such RSA Scheme (New Shares) Award, which must be a business day, and shall not be less than the nominal value of a Share and any such consideration shall be paid to the Company or the trustee at the sole and absolute discretion of the Board or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (New Shares).

8. Duration

Subject to the terms of the RSA Scheme (New Shares), the RSA Scheme (New Shares) shall be valid and effective for a period of 10 years commencing on the date of adoption, after which period no further RSA Scheme (New Shares) Awards shall be granted, but the provisions of the RSA Scheme (New Shares) shall in all other respects remain in full force and effect to the extent necessary to give effect to any RSA Scheme (New Shares) Awards granted prior to such expiry and the administration of the trust fund held by the trustee pursuant to the trust deed. The remaining life of the RSA Scheme (New Shares) is approximately 9.6 years.

Since the adoption date of the RSA Scheme (New Shares) (being December 7, 2022), no RSA Scheme (New Shares) Awards have been granted, cancelled or lapsed pursuant to the RSA Scheme (New Shares). As at both December 7, 2022, being the date of adoption of the RSA Scheme (New Shares), and December 31, 2022, the total number of RSA Scheme (New Shares) Awards available for grant under the RSA Scheme (New Shares) Mandate Limit is 23,039,645 Shares, representing approximately 10% of the total number of issued Shares at the relevant time, and the total number of RSA Scheme (New Shares) Awards available for grant to the Service Providers under the RSA Scheme (New Shares) Service Provider Sublimit is 13,823,787 Shares, representing approximately 6% of the total number of issued Shares at the relevant time. As at the date of this annual report, the total number of shares available for issue under the RSA Scheme (New Shares) is 23,039,645 Shares, representing approximately 9.57% of the total number of issued Shares.

RSA Scheme (Existing Shares)

RSA Scheme (Existing Shares) was adopted by the Company on September 9, 2022 and has taken effect from the even date. RSA Scheme (Existing Shares) constitutes a share scheme funded by existing Shares under Chapter 17 of the Listing Rules. The following is a summary of the principal terms of the RSA Scheme (Existing Shares). For further details of the RSA Scheme (Existing Shares), please refer to the announcement of the Company dated September 12, 2022.

1. **Purpose**

   The purpose of the RSA Scheme (Existing Shares) is to recognize and reward Eligible Participants for their contribution to the Group, to attract best available personnel to provide service to the Group, and to provide additional incentives to them to remain with and further promote the success of the Group's business.

2. **Eligible participants**

   Eligible participants under the RSA Scheme (Existing Shares) include (i) any physician providing online or offline healthcare services to the Group, who is not a director or employee of the Company or any other member of the Group and (ii) any consultant providing business consulting services to the Group, who the Board or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (Existing Shares) considers, in its sole discretion, has the eligibility ascribed in the RSA Scheme (Existing Shares).

3. **Maximum number of Shares available for subscription**

   The total number of Restricted Shares to be granted to the Eligible Participants (excluding the Restricted Shares underlying the RSA Scheme (Existing Shares) Awards that have lapsed and/or been cancelled in accordance with the relevant provisions in the RSA Scheme (Existing Shares)) pursuant to the RSA Scheme (Existing Shares) shall not exceed 11,519,822 Shares, representing 5% of the total number of Shares in issue as of the date of approval of the RSA Scheme (Existing Shares) by the Board.

4. **Maximum entitlement of each Eligible Participant**

   There is no maximum entitlement of Eligible Participants under RSA Scheme (Existing Shares).

5. **Grant and acceptance**

Subject to the terms of the RSA Scheme (Existing Shares), the Board or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (Existing Shares) shall be entitled at any time during the term of the RSA Scheme (Existing Shares) to make a grant to any Eligible Participant, as the Board or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (Existing Shares) may in its absolute discretion determine. An offer of grant of RSA Scheme (Existing Shares) Award to each of the selected participants will be made by the Board or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (Existing Shares) by way of a grant letter, in such form as the Board or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (Existing Shares) may from time to time determine for acceptance by the selected participants.

If the selected participant intends to accept the grant as specified in the grant letter, he/she is required to sign the acceptance notice to confirm his/her acceptance and return it to the Company within 21 days after the date of grant or in a manner prescribed in the grant letter. Upon the receipt from the selected participant of a duly executed acceptance notice and payment of consideration (if any), the Scheme (Existing Shares) Awards shall be granted to such selected participant, and such selected participant shall become a grantee pursuant to the RSA Scheme (Existing Shares).

6. **Vesting period**

There is no specific limitation on vesting period of RSA Scheme (Existing Shares) Award under RSA Scheme (Existing Shares).

7. **Consideration**

The consideration (if any) payable by a selected Eligible Participant for acceptance of the RSA Scheme (Existing Shares) Award under this RSA Scheme (Existing Shares) shall be determined with reference, at the sole and absolute discretion of the Board or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (Existing Shares), to the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day, and shall not be less than the nominal value of a Share and any such consideration shall be paid to the Company or the trustee at the sole and absolute discretion of the Board or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (Existing Shares).

8. **Duration**

Subject to any early termination as may be determined by the Board or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (Existing Shares) pursuant to the RSA Scheme (Existing Shares), RSA Scheme (Existing Shares) shall be valid and effective for a period of ten (10) years commencing on the date of adoption, after which no further RSA Scheme (Existing Shares) Awards will be granted, but the provisions of the RSA Scheme (Existing Shares) shall in all other respects remain in full force and effect to the extent necessary to give effect to any RSA Scheme (Existing Shares) Awards granted prior to such expiry and the administration of the trust fund held by the trustee pursuant to the trust deed. The remaining life of the RSA Scheme (Existing Shares) is approximately 9.4 years.

Since the adoption date of the RSA Scheme (Existing Shares) (being September 9, 2022), no RSA Scheme (Existing Shares) Awards have been granted, cancelled or lapsed pursuant to the RSA Scheme (Existing Shares). As at both September 9, 2022, being the date of adoption of the RSA Scheme (Existing Shares), and December 31, 2022, the total number of RSA Scheme (Existing Shares) Awards available for grant under the RSA Scheme (Existing Shares) is 11,519,822 Shares, representing approximately 5% of the total number of issued Shares at the relevant time. As at the date of this annual report, the total number of shares available for grant under the RSA Scheme (Existing Shares) is 11,519,822 Shares, representing approximately 4.78% of the total number of issued Shares.

EQUITY-LINKED AGREEMENT

Save as disclosed in the paragraph headed "SHARE INCENTIVE SCHEMES" in this annual report, no equity-linked agreement was entered into during the year ended December 31, 2022 and remained in force at the end of the year ended December 31, 2022.

SUBSEQUENT EVENT

On March 22, 2023, the Company and Action Thrive (the "**Vendor**") entered into a placing and subscription agreement with Morgan Stanley Asia Limited and Haitong International Securities Company Limited (the "**Placing Agents**"), pursuant to which (i) the Vendor has conditionally agreed to appoint the Placing Agents, and the Placing Agents have conditionally agreed to act as placing agents for the purpose of procuring, on a best effort basis as agents of the Vendor, not less than six purchasers for the sale Shares (being 10,400,000 Shares) (the "**Sale Shares**") at a price of HK$52.67 per Share (the "**Placing**") and (ii) the Company has conditionally agreed to issue to the Vendor and the Vendor has conditionally agreed to subscribe for the subscription Shares (being 10,400,000 Shares) (the "**Subscription Shares**") at a price of HK$52.67 per Share (the "**Subscription**").

The completion of the Placing and the Subscription took place on March 24, 2023 and March 30, 2023, respectively. The Sale Shares were placed to no less than six placees who, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, together with their respective ultimate beneficial owners, are (i) third parties independent of the Company and its connected persons; and (ii) third parties independent of, and not acting in concert with, the Vendor, its associates and persons acting in concert with the Vendor. None of the Placees of the Sale Shares has become a substantial shareholder of the Company upon completion of the Placing. The closing price as quoted on the Stock Exchange on the last full trading day prior to the date on which the Placing and Subscription Agreement was signed (being March 21, 2023) was HK$57.25 per Share, and the placing price and the subscription price were both HK$52.67 per Share. The aggregate nominal value of the Subscription Shares was US$1,040.00. The Company received total net proceeds from the Subscription of approximately HK$539.61 million. The net price for the Subscription (after deduction of all relevant costs and expenses) was approximately HK$51.89 per Share.

The Company intends to apply the net proceeds as follows: (i) approximately 60% or HK$323.77 million for the expansion of offline medical institutions, including: (a) upgrades and renovation of facilities and equipment of existing medical institutions; (b) establishment and acquisition of new medical institutions; (ii) approximately 20% or HK$107.92 million for upgrading and deepening the integration of online healthcare platforms and enhancing connection and interaction between offline and online business of the Group; (iii) approximately 10% or HK$53.96 million for diversifying the Company's product portfolio, including but not limited to developing in-hospital preparations with the assistance of contract research organizations and establishing an in-house preparation center; and (iv) approximately 10% or HK$53.96 million for standardizing healthcare solutions and improving the Company's information technology systems. As of the date of this annual report, the Company had not utilized any of such net proceeds.

The Directors consider that the Placing and the Subscription represent an opportunity to raise capital for the Company while broadening its Shareholder and capital base. The Directors are of the view that the Placing and the Subscription would strengthen the financial position of the Group and provide working capital to the Group. For details of the Placing and the Subscription, please refer to the announcements of the Company dated March 22, 2023 and March 30, 2023.

Save as disclosed above, there was no significant event that might affect the Group after the Reporting Period and up to the date of this annual report.

MATERIAL LEGAL, LITIGATION AND ARBITRATION MATTERS

As of the date of this annual report, no member of the Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the best knowledge of the Directors, as at the latest practicable date prior to the issue of this annual report, 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 at all times during the Reporting Period and as of the date of this annual report.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with the requirements under the Listing Rules. The Audit Committee consists of two independent non-executive Directors and one non-executive Director, being Mr. Li Tie (chairman of the Audit Committee), Mr. Jiang Xiaodong and Mr. Wu Taibing. The main duties of the Audit Committee are to assist the Board in reviewing compliance, accounting policies and financial reporting procedures; supervising the implementation of the internal audit system; advising on the appointment or replacement of external auditors; and liaising between the internal audit department and external auditors.

The Audit Committee has, together with the management and auditor of the Company, reviewed the accounting practice and policies adopted by the Group and the consolidated financial statements for the year ended December 31, 2022.

ANNUAL GENERAL MEETING

The forthcoming AGM of the Company will be held on June 16, 2023. A notice convening the forthcoming AGM will be published on the Company's website and the Stock Exchange's website and despatched to the Shareholders in accordance with the requirements of the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from June 13, 2023 to June 16, 2023, both days inclusive. During such period, no transfer of Shares of the Company will be registered. The record date for determining the eligibility to attend the forthcoming AGM will be June 16, 2023. In order to be eligible for attending the forthcoming AGM, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on June 12, 2023.

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended December 31, 2022, the Group's five largest customers accounted for less than 30% of the Group's total revenue.

Major Suppliers

For the year ended December 31, 2022, the Group's purchases from its largest supplier accounted for 10.6% of the Group's total purchases and the Group's purchases from its five largest suppliers accounted for 35.6% of the Group's total purchases.

During the year ended December 31, 2022, to the knowledge of the Directors, none of the Directors, their close associates, or Shareholders (which to the knowledge of the Directors, owned more than 5% of the number of issued Shares had any interest in any of the Group's five largest customers and suppliers.

FINANCIAL SUMMARY

A summary of the Group's results and assets and liabilities for the last five financial years is set out on page 286 in this annual report. This summary does not form part of the audited consolidated financial statements.

CHARITABLE DONATIONS

For the year ended December 31, 2022, the Group's charitable donations amounted to RMB2.5 million (2021: RMB2.7 million).

AUDITOR

Ernst & Young has audited the consolidated financial statements for the year ended December 31, 2022. A resolution regarding the re-appointment of Ernst & Young as the Group's auditor will be proposed at the forthcoming AGM.

There was no change in auditor of the Company since the Listing Date.

By order of the Board
Tu Zhiliang
Chairman
Hong Kong,
March 17, 2023

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

The Board considered that the Company has complied with all applicable code provisions as set out in the CG Code for the year ended December 31, 2022, save and except for code provision C.2.1 of the CG Code.

Pursuant to code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Tu is currently serving as the chairman of the Board as well as the chief executive officer of our Company. As Mr. Tu is the founder of our Group and has been managing our Group's business and overall strategic planning since its establishment. The Directors consider that vesting the roles of chairman and chief executive officer in Mr. Tu is beneficial to the business prospects and management of our Group by ensuring consistent leadership within our Group. The Board therefore considers it is appropriate to deviate from code provision C.2.1 of the CG Code in such circumstances. The Board will continue to review and consider splitting the roles of chairman of our Board and the chief executive officer of the Company at an appropriate time if necessary, taking into account the circumstances of our Group as a whole. Notwithstanding the foregoing, the Board considers that the management structure is effective for the operation of the Group and those adequate checks and balances have been put in place.

The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding dealings in the securities of the Company by the Directors, senior management members, and employees who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company's securities.

Having made specific enquiries of all Directors, each of the Directors has confirmed that he/she has complied with the required standards as set out in the Model Code for the year ended December 31, 2022. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management members or relevant employees of the Group for the year ended December 31, 2022.

BOARD OF DIRECTORS

1. Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is adhered to the Company's vision and value to provide "conscientious physicians, reliable pharmaceuticals (良心醫，放心藥)". The primary role of the Board is to lead and control the Company's operations and affairs and to protect and enhance long-term Shareholders' value. The Board oversees the management of the businesses and affairs of the Group and is responsible for the overall performance of the Group. The Board provides entrepreneurial leadership, sets the overall strategy for the Group and ensures that the necessary financial and human resources are in place for the Company to meet its objectives The Board is responsible for, and has general powers over, the management and operation of our business. The Board is responsible for leading and controlling the Company, and supervising, reviewing and approving the major decisions related to the financial performance, strategic development goals and operations of the Company. The Board is also responsible for:

- providing guidance and leadership for corporate and strategic directions of the Group;
- reviewing the financial performance of the Group;
- providing guidance to overall management of the businesses and affairs of the Group;
- setting up broad policies and financial objectives of the Company;
- overseeing the processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance;
- approving the nominations of Directors and appointments of key personnel;
- reviewing and approving investments, mergers and acquisition and disposal transactions;
- approving annual budgets and major funding proposals;
- assuming the responsibility for corporate governance as set out in the CG Code;
- reviewing the performance of management;
- identifying the key stakeholder groups and recognizing that their perceptions affect the Company's reputation;
- setting the Company's values and standards (including ethical standards), and ensuring that obligations to Shareholders and other stakeholders are understood and met; and
- considering sustainability issues, e.g., environmental and social factors, as part of its strategic formulation.

All Directors shall ensure that they carry out their duties in good faith, in compliance with applicable laws and regulations, and in the best interests of the Company and Shareholders at all times. The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

To facilitate effective management, certain functions have been delegated to various Board committees, namely the Nomination Committee, the Remuneration Committee and the Audit Committee, each of which has its own written terms of reference and whose actions are reported to and monitored by the Board. The effectiveness of each committee is also constantly monitored. All Board committees' terms of reference are available on the respective websites of the Company and the Stock Exchange.

Independent non-executive Directors exercise non-management functions in the Group. Although all Directors have equal responsibility for the performance of the Group, the role of the independent non-executive Directors is particularly important in ensuring that the strategies proposed by the executive management are fully discussed and rigorously examined and take account of the long-term interest, not only of the Shareholders but also of other stakeholders.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Board reserves for its decision all major matters of the Company, including approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Responsibility relating to implementing the Board's decision, directing, coordinating and managing daily operation are delegated to the management.

2. Composition of the Board

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

Executive Director

Mr. Tu *(Chairman)*

Non-executive Directors

Mr. Jiang Xiaodong
Mr. Huang Jingsheng
Mr. Xu Yongjiu
Mr. Liu Kanghua
Mr. Gao Jian

Independent Non-executive Directors

Ms. Jin Xu
Mr. Li Tie
Mr. Wu Taibing

Mr. Tu, our Chairman, the executive Director and the chief executive officer, is one of our Controlling Shareholders and Mr. Liu Kanghua, a non-executive Director is the brother-in-law of Mr. Tu. Save as disclosed above, none of the members of the Board has any financial, business, family or other material relationship with each other.

For the year ended December 31, 2022, the Board had complied with Rules 3.10(1) and 3.10(2) of the Listing Rules regarding the appointment of at least three independent non-executive Directors, and at least one of the independent non-executive Directors must have appropriate professional qualifications or accounting or related financial management expertise. Three independent non-executive Directors represent one-third of the Board, which is compliant with the requirement of Rule 3.10A of the Listing Rules that an issuer must appoint independent non-executive directors representing at least one-third of the board. The Board believes that the composition of the members of the Board provides sufficient independence to safeguard the interests of the Shareholders.

The Company has received annual written confirmations regarding their respective independence from each independent non-executive Director pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent persons pursuant to the Listing Rules.

3. Appointment, Re-election and Retirement of Directors

Each of the Directors has entered into a service contract or letter of appointment with the Company for a term of three years. Details of the Directors' service contracts and letters of appointment are set out in the section headed "Directors' Report — Directors' service Contract and Letters of Appointment" in this annual report.

Article 109(a) of the Articles of Association of the Company provides that at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at an annual general meeting at least once every three years. Article 109(b) of the Articles of Association provides that the Directors to retire by rotation shall include (so far as necessary to obtain the number required) any Director who wishes to retire and not to offer himself for re-election. Any Director who has not been subject to retirement by rotation in the three years preceding the annual general meeting shall retire by rotation at such annual general meeting. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

In accordance with Article 109 of the Articles of Associations, Mr. Jiang Xiaodong, Mr. Gao Jian and Ms. Jin Xu shall retire by rotation at the AGM. Further, the abovementioned Directors, being eligible, have offered themselves for re-election as Directors at the AGM.

The Nomination Committee has reviewed and assessed the background, expertise, experience and time commitment of the retiring Directors according to the nomination policy of the Company, taking into account various aspects set out in the board diversity policy of the Company including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

The Nomination Committee has considered Mr. Jiang Xiaodong, Mr. Gao Jian and Ms. Jin Xu's extensive experience respectively, their working profiles and other experience and factors as set out in sections headed of "Directors and Senior Management" of this annual report. The Nomination Committee is satisfied that Mr. Jiang Xiaodong, Mr. Gao Jian and Ms. Jin Xu have performed their duties as non-executive Directors and independent non-executive Director, respectively and effectively. The Board is of the opinion that Mr. Jiang Xiaodong, Mr. Gao Jian and Ms. Jin Xu with their knowledge and experience will continue to bring valuable contribution to the Board.

The Nomination Committee has assessed the independence of all the independent non-executive Directors including Ms. Jin Xu. All the independent non-executive Directors have satisfied the independence criteria as set out in Rule 3.13 of the Listing Rules on reviewing their annual written confirmation of independence to the Company.

The Nomination Committee has also considered Jin Xu's expertise and extensive experience in fund management will enhance the diversity of the skills and perspectives of the Board. The Board considers that Ms. Jin Xu has devoted sufficient time to perform her duties of an independent non-executive Director of the Company.

The Nomination Committee has nominated and the Board has recommended Mr. Jiang Xiaodong, Mr. Gao Jian and Ms. Jin Xu to stand for re-election at the forthcoming AGM.

4. Induction Guidance and Continuous Development of Directors

Each Director will be provided with the necessary induction training and information to ensure they are adequately informed of the operations and businesses of the Company and their responsibilities under relevant regulations, articles, laws, rules and ordinances. The Company will continue to regularly arrange training sessions for Directors in order to provide them with the latest developments and changes regarding the Listing Rules and other relevant laws and regulations. Directors are also provided with updates from time to time about the Company's performance, status and prospect, so that the Board as a whole and each Director can fulfil their respective duties.

For the year ended December 31, 2022, all Directors have received the training sessions organized by the Company. The training sessions covered the continuity obligation of a listed company and its directors, the disclosure obligation of a listed company and updates of the Listing Rules.

According to the records provided by the Directors, the training attended by all the Directors for the year ended December 31, 2022 is summarized as follows:

Name of Directors	Topic of Training Covered
Executive Director	
Mr. Tu *(Chairman)*	**(1), (2)**
Non-executive Directors	
Mr. Jiang Xiaodong	**(1), (2)**
Mr. Huang Jingsheng	**(1), (2)**
Mr. Xu Yongjiu	**(1), (2)**
Mr. Liu Kanghua	**(1), (2)**
Mr. Gao Jian	**(1), (2)**
Independent non-executive Directors	
Ms. Jin Xu	**(1), (2)**
Mr. Li Tie	**(1), (2)**
Mr. Wu Taibing	**(1), (2)**

Notes:

(1) Attending the training for Directors covering a wide range of topics, including but not limited to the management of inside information, discloseable transactions and connected transactions, duty of disclosure of interests, the laws applicable to the Company and the Company's continuing compliance obligations.

(2) Reading relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors and duty of disclosure of interests.

5. Attendance Records of the Board Meetings and General Meetings

The Company has adopted the practice of holding Board meetings regularly. Notice of not less than 14 days is given of all regular Board meetings to provide all Directors with the opportunity to attend and include matters in the agenda. The agenda and accompanying board papers are despatched to the Directors or Board Committee members at least three days before meetings to ensure that they have sufficient time to review these documents and be adequately prepared. When Directors or Board Committee members are unable to attend a meeting, they are advised of the matters to be discussed and given an opportunity to make their views known to the chairman prior to the meeting.

Minutes of the Board meetings and the Board Committee meetings are recorded in detail and include the matters considered by the Board and the Board Committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board Committee meeting are sent to the Directors within a reasonable time after the date on which the meeting is held so that they have an opportunity to request amendments.

During the year ended December 31, 2022, the Company held five Board meetings and passed three written resolutions. Such Board meetings were held on March 30, 2022, July 5, 2022, August 16, 2022, September 9, 2022 and December 7, 2022, respectively. In addition, the Company held one annual general meeting and one extraordinary general meeting during the year ended December 31, 2022. The attendance records of each of the Directors at the Board meetings and the general meeting are set out below:

Name of Directors	Number of Board meetings attended in person/obliged to attend	Attendance in person at Board meetings	Attendance in person/number of general meetings	Attendance in person at general meetings
Executive Director				
Mr. Tu *(Chairman)*	5/5	100%	2/2	100%
Non-executive Directors				
Mr. Jiang Xiaodong	5/5	100%	2/2	100%
Mr. Huang Jingsheng	5/5	100%	2/2	100%
Mr. Xu Yongjiu	5/5	100%	2/2	100%
Mr. Liu Kanghua	5/5	100%	2/2	100%
Mr. Gao Jian	5/5	100%	2/2	100%
Independent non-executive Directors				
Ms. Jin Xu	5/5	100%	2/2	100%
Mr. Li Tie	5/5	100%	2/2	100%
Mr. Wu Taibing	5/5	100%	2/2	100%

In addition to the above Board meetings, during the Reporting Period, the Company held a separate meeting for the Chairman and independent non-executive Directors in accordance with the code provision C.2.7 of the CG Code.

BOARD COMMITTEES

As an integral part of good corporate governance, the Board has established three committees (namely, the Audit Committee, the Remuneration Committee and the Nomination Committee) for overseeing the performance of specific functions which are set out in written terms of reference for each committee. The Board committees are provided with sufficient resources to perform their duties and may seek independent professional advices where appropriate when receiving reasonable requests. The relevant costs shall be borne by the Company.

1. Audit Committee

The Company established an Audit Committee in compliance with Rules 3.21 to 3.23 of the Listing Rules with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review, supervise and approve the financial reporting process and risk management and internal control system and to provide advice and comments to the Board.

Members of the Audit Committee are Mr. Li Tie (independent non-executive Director), Mr. Jiang Xiaodong (non-executive Director) and Mr. Wu Taibing (independent non-executive Director). Mr. Li Tie is the chairman of the Audit Committee.

Code provision D.3.3(e)(i) of the CG Code provides that members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's auditors.

During the year ended 31 December 2022, the Audit Committee held three Audit Committee meetings on January 6, 2022, March 30, 2022 and August 16, 2022 respectively. The Audit Committee meeting held on January 6, 2022 reviewed and considered the appointment of the auditor. The Audit Committee meeting held on March 30, 2022 reviewed the audited consolidated financial statements of the Company for the year ended December 31, 2021 and confirmed that the applicable accounting principles, standards and requirements had been complied with and adequate disclosures had been made, and reviewed the Company's risk management, internal control systems, the re-appointment of external auditors and the effectiveness of the Company's internal audit function. The Audit Committee meeting held on August 16, 2022 reviewed the unaudited interim condensed consolidated financial information of the Company for the six months ended June 30, 2022. No executive Director attended the three meetings between the Audit Committee and the external auditor.

The composition of the Audit Committee and attendance of members at committee meeting are as follows:

Composition of the committee (C = Chairperson; M = Member of the committee)	Attendance/ Number of meetings held
Mr. Li Tie (C)	3/3
Mr. Jiang Xiaodong (M)	3/3
Mr. Wu Taibing (M)	3/3

2. Remuneration Committee

The Company established a Remuneration Committee with written terms of reference in compliance with the CG Code. The Remuneration Committee is authorised by the Board to act within these terms of reference. The Remuneration Committee is authorized to seek any information it requires from any employee of the Company, and all employees are directed to co-operate with any request made by the Remuneration Committee. The Remuneration Committee is authorized by the Board to consult the chairman and/or major administrative personnel of the Company about the remuneration proposals for other executive directors of the Company.

The primary duties of the Remuneration Committee are to establish, review and make recommendations to the Directors on the Group's policy and structure concerning remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policies concerning such remuneration, recommends the terms of the specific remuneration package of each executive Director and senior management, review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time, and review and/or approve matters relating to share schemes under Chapter 17 of the Listing Rules.

Members of the Remuneration Committee are Ms. Jin Xu (independent non-executive Director), Mr. Huang Jingsheng (non-executive Director), and Mr. Li Tie (independent non-executive Director). Ms. Jin Xu is the chairwoman of the Remuneration Committee.

During the year ended 31 December 2022, the Remuneration Committee held a meeting on March 30, 2022, at which it reviewed the remuneration policy and structure of the Directors and senior management and made recommendations to the Board on the remuneration of the Directors and senior management for 2022. The Remuneration Committee has also reviewed the material matters relating to share schemes of the Company during the Reporting Period.

The composition of the Remuneration Committee and attendance of members at committee meeting are as follows:

Composition of the committee (C = Chairperson; M = Member of the committee)	Attendance/ Number of meetings held
Ms. Jin Xu (C)	**1/1**
Mr. Huang Jingsheng (M)	**1/1**
Mr. Li Tie (M)	**1/1**

3. Nomination Committee

The Company established a Nomination Committee with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes, identify, select or make recommendations to the Board on the selection of individuals nominated for directorship, assess the independence of our independent non-executive Directors and make recommendations to the Board on relevant matters relating to the appointment, re-appointment and removal of the Directors and succession planning for the Directors.

Members of the Nomination Committee are Mr. Tu (executive Director), Ms. Jin Xu and Mr. Wu Taibing (both independent non-executive Directors). Mr. Tu is the chairman of the Nomination Committee.

During the year ended 31 December 2022, the Nomination Committee held a meeting on March 30, 2022, at which it reviewed the composition of the Board and its committees as well as the background and experiences of the Board members, evaluated the contributions of the Board members to the Board diversity, made recommendation to the Board on the re-appointment of Directors, evaluated the independence of independent non-executive Directors, and reviewed the board diversity policy and the nomination policy.

The composition of the Nomination Committee and attendance of members at committee meeting are as follows:

Composition of the committee (C = Chairperson; M = Member of the committee)	Attendance/ Number of meetings held
Mr. Tu (C)	**1/1**
Ms. Jin Xu (M)	**1/1**
Mr. Wu Taibing (M)	**1/1**

Nomination Policy

When a vacancy arises under any circumstance, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Nomination Committee, in consultation with the Board, will determine the selection criteria and select candidates with the appropriate expertise and experience for the position in such circumstance. Candidates may be suggested by Directors or management or sourced from external sources. The candidates are assessed based on objective criteria approved by the Board such as integrity, independent mindedness, possession of the relevant skills required or skills needed to complement the existing Board members, ability to commit the time and effort to carry out his responsibilities, good decision-making track record, relevant experience and financial literacy.

BOARD DIVERSITY POLICY

The Company has adopted a board diversity policy which sets out the approach to achieve and maintain an appropriate balance of diversity perspectives of the Board that are relevant to business growth. Pursuant to the board diversity policy, selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merits and contribution that the selected candidates will bring to the Board.

The Nomination Committee is of the view that the current Board composition has a balanced mix of knowledge and skills, including overall management and strategic development, TCM healthcare services, accounting and financial management. The Directors obtained degrees in various majors, including in business administration, computer science and technology, sociology, chemical engineering and technology, economy and law. The Company has taken and will continue to take steps to promote gender diversity at all levels of our Company, including but without limitation at the Board and senior management levels. In particular, one of the independent non-executive Directors, two of the existing senior management and the two joint company secretaries are female as of the date of this annual report. Taking into account the existing business modes and specific needs as well as the different background of the Directors, the Nomination Committee considers the composition of the Board satisfies our board diversity policy.

The Company's diversity philosophy including the gender diversity was generally followed in the workforce throughout the Group for the year ended December 31, 2022. As of the date of this annual report, 65.4% of the Group's total workforce (including senior management) are female. The Company targets to maintain a high level of female representation in the Group's workforce, with the ultimate goal of achieving gender parity.

Going forward, under the objectives of the board diversity policy, it is expected to have two female Directors at the Board within five years following the Listing Date, subject to the Directors (i) being satisfied with the competence and experience of the relevant candidates after a comprehensive search and review process based on reasonable criteria; and (ii) fulfilling their fiduciary duties to act in the best interest of the Company and the Shareholders as a whole when deliberating on the relevant appointment. In order to develop a pipeline of potential female successors to members of the Board, the Company will (i) ensure that there is gender diversity when recruiting staff at mid to senior levels; and (ii) engage more resources in training female staff with the aim of promoting them to be members of our senior management or the Board (as appropriate).

In assessing the optimum composition of the Board, the Nomination Committee would take into account various aspects set out in its terms of references and the board diversity policy of the Company, including but not limited to skills, experience, knowledge, expertise, culture, independence, age and gender as well as the existing and future strategic needs of the Company. The Nomination Committee would ensure the diversity of the Board and would review the measurable objectives under the board diversity policy and the progress of attainment, so as to ensure effective implementation.

DIVIDEND POLICY

The Company does not have a formal dividend policy or a fixed dividend distribution ratio. However, the Company will work towards maintaining a balance between meeting Shareholders' expectations and prudent capital management. The issue of payment of dividends is deliberated by the Board annually, having regard to various factors (e.g., Company's profit, cash flow, capital requirements for investment and growth, general business conditions and other factors as the Board deems appropriate).

Subject to the Cayman Companies Act, through a general meeting, the Board may declare dividends, but no dividend may be declared unless out of either profit or share premium account and no dividend shall exceed the amount recommended by our Board. Any declaration of dividends will be at the absolute discretion of the Directors and will depend on the future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that the Directors consider relevant. The Board may from time to time declare interim dividends as it deems fit. There is no guarantee as to what form dividends will be paid in the future.

The Company would distribute dividends to the Shareholders, mainly through our share premium and retained profits, in the future. The Company's ability to declare and pay dividends will depend on the availability of funding to be received from the Group companies in the PRC and Hong Kong. It is expected that the main source of funding for dividend distribution in the future will be settlements from the Group companies in the PRC and Hong Kong with respect to their outstanding balances due to the Company's holding company. Alternatively, the Company might rely on any dividends to be distributed by the Company's PRC subsidiaries to some extent. Any dividend distributions from the Company's PRC subsidiaries to the Company will be subject to PRC withholding tax. In addition, regulations in the PRC currently permit payment of dividends of a PRC company only out of accumulated distributable after-tax profits as determined in accordance with its articles of association and the accounting standards and regulations in the PRC. Distributions of dividends or settlements from the Company's subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities or other agreements that the Group may enter into in the future.

BOARD INDEPENDENCE EVALUATION MECHANISM

Under code provision B.1.4 of the CG Code, the Board is required to establish mechanism(s) to ensure independent views and input are available to the Board.

The Board has adopted the board independence evaluation mechanism (the "**Mechanism**") which sets out the principles and guidelines for the Company to ensure independent view and input to be available to the Board. The Mechanism took effect on March 17, 2023.

The following mechanisms has been established by the Board:

- The Nomination Committee is established with clear terms of reference to identify suitable candidates, including independent non-executive Directors, for appointment as Directors.

- The nomination policy of the Company is in place with details of the process and criteria of identifying, selecting, recommending, cultivating and integrating new directorship.

- For independent non-executive Directors:

  — Every independent non-executive Director is required to confirm in writing to the Company his/her independence upon his/her appointment as Director with reference to such criteria as stipulated in the nomination policy of the Company as well as the Listing Rules;

  — Each independent non-executive Director has to declare his/her past or present financial or other interests in the Group's business as soon as practicable, or his/her connection with any of the Company's connected persons (as defined in the Listing Rules), if any;

  — Each independent non-executive Director is required to inform the Company as soon as practicable if there is any change in his/her own personal particulars that may affect his/her independence.

- The Nomination Committee will assess annually the independence of all independent non-executive Directors and to affirm if each of them still satisfies the criteria of independence as set out in the Listing Rules and is free from any relationships and circumstances which are likely to affect, or could appear to affect, their independent judgement. Every Nomination Committee member should abstain from assessing his/her own independence.

- Where the Board proposes a resolution to elect an individual as an independent non-executive Director at the general meeting, it will set out in the circular to shareholders the reasons it believes he/she should be elected and the reasons it considers him/her to be independent.

- A mechanism is in place for Directors to seek independent professional advice in performing their duties at the Company's expense.

- Directors are encouraged to access and consult with the Company's senior management independently, if necessary.

- Annual review on Board independence (the "**Board Independence Evaluation**") will be conducted, with attention to ensuring that it remains independent in judgement, and continue to present an objective and constructive challenge to the assumptions and viewpoints presented by the management.

- The Board Independence Evaluation may take in the form of a questionnaire to all Directors individually and may be supplemented by individual interview with each Director, if necessary, and/or in any other manners which the Board considers fit and necessary.

- The Board Independence Evaluation report will be presented to the Board which will collectively discuss the results and the action plan for improvement, if appropriate.

- The results of the Board Independence Evaluation or a summary of the findings of the said Evaluation will be disclosed in the Corporate Governance Report for accountability and transparency purposes.

- The aforesaid Board Independence Evaluation will be regarded as an ongoing exercise of the Company while the Company may seek assistance from external consultant if an external evaluation on the same subject is needed.

The full text of the Mechanism is available on the website of the Company (www.gstzy.cn).

CORPORATE GOVERNANCE FUNCTIONS

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

The Board recognizes that corporate governance should be the collective responsibility of Directors, which include:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

The Board developed, reviewed and monitored the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and compliance manual applicable to employees and Directors, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group.

The Remuneration Committee covers all aspects of emoluments, including but not limited to Directors' fees, salaries, allowances, bonuses, options, benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. In setting remuneration packages, the Remuneration Committee takes into consideration the pay and employment conditions within the industry and in comparable companies, the Group's relative performance and the individual performance of the Directors and the key management personnel. The Remuneration Committee will seek expert advice on remuneration of all Directors as and when necessary.

The Remuneration Committee ensures that the performance-related elements of remuneration are designed to align the interests of the executive Directors with those of Shareholders and link rewards to corporate and individual performance and promote the long-term success of the Company. The Remuneration Committee considers the executive Directors' and key management personnels' responsibilities, skills, expertise and contribution to the Group's performance when designing their respective remuneration packages.

All the executive Directors and non-executive Directors do not receive Directors' fees. In considering the remuneration packages for the Directors, the Remuneration Committee will take into account factors such as frequency of meetings, effort and time spent as well as responsibilities. The remuneration of the Directors comprises a basic salary and variable components which include an annual bonus, based on the performance of the Group as a whole and their individual performance. 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 as an inducement to join, or upon joining the Group, or as compensation for loss of office.

The remuneration of the key management personnel comprises a basic salary component and a variable component. The variable component comprises a variable bonus linking to the Company's and individual performance.

The remuneration payable to the senior management (excluding Directors) of the Company for the year ended December 31, 2022 is set out in the following table by band:

Bands	Number of Individual
Nil to HK$1,000,000	**1**
HK$1,000,001 to HK$1,500,000	**2**
HK$4,000,001 to HK$4,500,000	**1**
	4

Further details of the Directors' emoluments and the top five highest paid employees required to be disclosed under Appendix 16 of the Listing Rules are set out in Notes 8 and 9 to the consolidated financial statements.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the Company's financial statements for the year ended December 31, 2022.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual reports, inside information announcements and other financial disclosures required by the Listing Rules and other applicable statutory and regulatory requirements.

In preparing the financial statements for the year ended December 31, 2022, the Board reviewed and selected the appropriate accounting policies, and ensured that the management had applied them consistently and prepared the financial statements on a going concern basis. The Board reviews compliance issues with the management as and when required.

The senior management of the Company has provided such explanation and information to the Board as necessary to enable the Board to carry out an informed assessment of the financial information and position of the Company in order to put forward such information to the Board for approval.

The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 171 to 176 of this annual report.

AUDITOR'S REMUNERATION

For the year ended December 31, 2022, the remuneration paid and payable to the Company's external auditors, Ernst & Young, is set out below:

Type of Service	RMB'000
Annual audit services	**3,880**
Non-audit services[Note]	**370**

Note: The non-audit services mainly comprised advisory services on matters in relation to taxation and Environmental, Social and Governance Report.

The statement of the external auditor of the Company about their reporting responsibilities for the consolidated financial statements is set out in the "Independent Auditor's Report" on pages 171 to 176 of this annual report.

JOINT COMPANY SECRETARIES

Ms. Xie Xiaoping (謝小平) ("**Ms. Xie**") was appointed as one of the joint company secretaries of the Company on May 25, 2021. In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engaged Ms. Lau Jeanie (劉准羽) ("**Ms. Lau**"), a former assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited ("**SWCS**", a company secretarial service provider), as the other joint company secretary to assist Ms. Xie to discharge her duties as company secretary of the Company. The primary corporate contact person at the Company is Ms. Xie, the joint company secretary of the Company. Ms. Lau resigned and Mr. Ms. Ho Yin Kwan (何燕群) ("**Ms. Ho**"), a vice president of SWCS, was appointed as the joint company secretary of the Company both effective from July 5, 2022. For details, please refer to the announcement of the Company dated July 5, 2022. Following the resignation of Ms. Lau, Ms. Xie and Ms. Ho are the joint company secretaries of the Company.

For the year ended December 31, 2022, the joint company secretaries of the Company have undertaken not less than 15 hours of relevant professional training which in compliant with Rule 3.29 of the Listing Rules.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal control system in order to safeguard the Group's assets and shareholders' interests and reviewing the effectiveness of the Group's internal control and risk management systems (including ESG risks) on an annual basis so as to ensure that internal control and risk management systems in place are adequate. The systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to management rather than eliminate risks of failure in the Group's operational systems and in achievement of the Group's business objectives.

The Group's internal control system includes a well-established organizational structure with clearly defined lines of responsibility and authority. The day-to-day departmental operations are entrusted to the individual department which is accountable for its own conduct and performance and is required to operate its own department's business within the scope of the delegated authority and to implement and strictly adhere to the strategies and policies set by the Company from time to time.

The Board is the highest decision-making body on risk management matters, and is ultimately responsible for the effectiveness of our overall risk management policies and procedures. The main responsibilities of the Board include (1) reviewing and approving major risk management policies and procedures (including ESG risks), (2) assessing our overall risk exposure (including ESG risks), and (3) supervising senior management members who are charged with risk management responsibilities (including ESG risks).

The Group has established an internal audit function. The internal auditor of the Company has carried out an analysis and independent appraisal of the adequacy and effectiveness of the risk management and internal control systems of the Group for the year ended December 31, 2022.

The Company will determine the level of risk tolerance and risk policy. The management reviews the Group's business and operational activities to identify areas of significant business risks and considers measures to mitigate these risks and reports to the Board where necessary. Such process comprises the following stages:

- Risk identification: identify potential risks.

- Risk assessment and prioritisation: assess the risks in terms of impact and vulnerability.

- Risk response and monitoring: consider the risk responses and monitor the effectiveness of the remediation plan on a periodic basis.

The Board has reviewed the effectiveness of the risk management and internal control system of the Group for the year ended December 31, 2022 and the Board assesses that the Group's risk management and internal control system is effective and adequate. The review covered all material controls, including financial, operational and compliance controls and risk management functions. In particular, the Board considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions as well as those relating to the Company's ESG performance and reporting to be adequate. The review was conducted through discussions with the management of the Company, its external and internal auditors and the assessment performed by the Audit Committee. The Board also made reference to the results of the agreed upon procedures in connection with the internal control of the Company performed by the internal control consultant engaged by the Company in preparation for the Listing, and these procedures did not identify any material internal control deficiencies of the Group.

The main features of the risk management and internal control systems are described in the sections below:

Risk Management System

The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- Identification: Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.

- Evaluation: Analyse the likelihood and impact of risks and evaluate the risk portfolio accordingly.

- Management: Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

Based on the risk assessment review for the year ended December 31, 2022, no significant risk was identified.

Internal Control System

The Board is responsible to ensure that the Group maintains sound and effective internal controls to safeguard the shareholders' investment and the Group's assets.

The internal control system will cover all material controls, including financial, operational, information technology, compliance controls and risk management functions.

The Company has in place an internal control system that enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.

The components of the framework are shown as follows:

1. Control Environment: A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.

2. Risk Assessment: A dynamic and iterative process for identifying and analysing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.

3. Control Activities: Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.

4. Information and Communication: Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.

5. Monitoring: Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group has adopted and implemented an inside information procedure. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include the maintaining of a good control environment with defined organizational structure, limit of authority, reporting lines and responsibilities in accordance with the Company's guidelines and the regulatory requirements. An effective information platform has been created to enable relevant and timely information are sent to the Board for decision making. Appropriate control measures have been taken place to facilitate a good control environment for handling and dissemination of inside information. The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality. Confidentiality agreements are in place when the Group enters into significant negotiations. Where necessary, Directors to speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

Based on the internal control reviews for the year ended December 31, 2022, no significant control deficiency was identified.

The Board is responsible for the risk management and internal control systems of the Group and ensuring review of the effectiveness of these systems has been conducted at least annually. Several areas have been considered during the Board's review, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment; (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems. Such a review shall be conducted annually. Upon the recommendation of the Audit Committee, the Board was of the view that the risk management system and internal control system for the year ended December 31, 2022 were adequate and effective. In addition, upon a review on the internal audit function of the Group, the Board was of the view that the internal audit function of the Group remained effective during year ended December 31, 2022.

WHISTLE-BLOWING POLICY

The Company has in place a whistle-blowing policy to allow staff to raise concerns in confidence on any financial improprieties or management involving the Company. Staff will approach the chairman of the Audit Committee directly for any complaint or concerns about any suspected fraud or irregularity and possible improprieties in matters of financial reporting or management against any other employees of the Group. The chairman of the Audit Committee will ensure that arrangements are in place for the independent investigation of such matters and for appropriate follow-up action.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution will be proposed for each issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

Convening of extraordinary general meeting and putting forward proposals

In accordance with article 64 of the Articles of Association, any one or more members holding, as at the date of deposit of the requisition, in aggregate not less than one-tenth of the voting rights (on a vote per share basis) in the share capital of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, 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 twenty-one (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.

Shareholders may put forward proposals for consideration at a general meeting of the Company according to article 64 of the Articles of Association requisitioning an extraordinary general meeting and including a resolution at such meeting. The requirements and procedures of article 64 are set out above.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

Enquiries to the Board

Shareholders and investors who intend to put forward their enquiries about the Company to the Board could send their enquiries to the headquarters of the Company at Room 005, No. 419 Qingsha Road, Dongchong Town, Nansha District, Guangzhou City, the PRC (email address: ir@360gst.com).

Changes to the contact details above will be communicated through the Company's website at www.gstzy.com, which also contains information and updates on the Group's business developments and operations, as well as press releases and financial information.

COMMUNICATION WITH SHAREHOLDERS

To ensure the Shareholders and, in appropriate circumstances, the investment community at large, are provided with ready, equal and timely access to balanced and understandable information about the Company, the Company has adopted a shareholder's communication policy (the "**Policy**"). According to the Policy, information shall be communicated to Shareholders and the investment community mainly through the Company's financial reports (interim and annual reports), annual general meetings and other general meetings that may be convened, as well as by making available all the disclosures submitted to the Stock Exchange and its corporate communications and other corporate publications on the Company's website. The policy has been reviewed regularly by the Board to ensure its effectiveness. A summary of the Policy is set out below and the full text of which has been published on the Company's website for public information.

Shareholders' enquiries

Shareholders should direct their questions about their shareholdings to the Company's registrar.

Shareholders and the investment community may at any time make a request for the Company's information to the extent such information is publicly available.

Shareholders and the investment community shall be provided with designated contacts, email addresses and enquiry lines of the Company in order to enable them to make any query in respect of the Company.

Corporate Communication

Corporate communication will be provided to Shareholders in plain language and in both English and Chinese versions to facilitate Shareholders' understanding. Shareholders have the right to choose the language (either English or Chinese) or means of receipt of the corporate communications (in hard copy or through electronic means).

Shareholders are encouraged to provide, amongst other things, in particular, their email addresses to the Company in order to facilitate timely and effective communications.

Corporate Website

A dedicated Investor Relations section is available on the Company's website www.gstzy.com. Information on the Company's website is updated on a regular basis.

Information released by the Company to the Stock Exchange is also posted on the Company's website immediately thereafter. Such information includes financial statements, results announcements, circulars and notices of general meetings and associated explanatory documents etc.

All presentation materials provided in conjunction with the Company's annual general meeting and results announcement each year will be made available on the Company's website as soon as practicable after their release.

Shareholders' Meetings

Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalf if they are unable to attend the meetings.

Appropriate arrangements for the annual general meetings shall be in place to encourage Shareholders' participation.

The process of the Company's general meeting will be monitored and reviewed on a regular basis, and, if necessary, changes will be made to ensure that Shareholders' needs are best served.

Board members, in particular, either the chairmen of Board committees or their delegates, appropriate management executives and external auditors will attend annual general meetings to answer Shareholders' questions.

Shareholders are encouraged to attend Shareholders' activities organised by the Company, where information about the Company, including its latest strategic plan, products and services etc., will be communicated.

Investment Market Communications

Investor/analysts briefings and one-on-one meetings, roadshows (both domestic and international), media interviews, marketing activities for investors and specialist industry forums etc., will be available on a regular basis in order to facilitate communication between the Company, Shareholders and the investment community.

Having considered the various existing channels of communication and the feedbacks from the Shareholders, investors and analysts, the Board considers that the Policy has been properly implemented and effective during the year ended December 31, 2022.

CONSTITUTIONAL DOCUMENTS

In order to conform to the core shareholder protection standards as set out in the amended Appendix 3 to the Listing Rules, which took effect on January 1, 2022, the Board resolved at a meeting held on March 30, 2022 to propose to make certain amendments to the Articles of Association. The aforementioned proposed amendments to the Articles of Association were considered and approved by the Shareholders by way of a special resolution at the annual general meeting held on June 16, 2022. For details, please refer to the announcement of the Company dated March 30, 2022, the circular of the Company dated April 28, 2022 and the poll results announcement of the Company dated June 16, 2022. An up-to-date version of the Company's Memorandum and Articles of Association is also available on the websites of the Company and the Stock Exchange.

Environmental, Social and Governance Report

1 ABOUT THIS REPORT

This report is the second Environmental, Social and Governance ("**ESG**") report issued by GUSHENGTANG HOLDINGS LIMITED. Adhering to the principles of materiality, quantification, balance and consistency, this ESG Report focuses on the disclosure of the Company's ESG performance from January 1, 2022 to December 31, 2022 (the "**Reporting Period**").

Basis of Preparation

This ESG Report has complied with all the provisions set out in the Environmental, Social and Governance Reporting Guide (the "**ESG Reporting Guide**") in Appendix 27 to the Listing Rules issued by the Stock Exchange. The ESG Reporting Guide Content Index is set out in Chapter 7 of this ESG Report. The report complied with the principles of materiality, quantification, balance and consistency of ESG Reporting Guide.

- **Materiality:** We identify ESG issues that have significant impacts on the Company's development and stakeholders by conducting stakeholder communications, management interviews and research and evaluation on issues of materiality.

- **Quantification:** The statistics and calculation basis are fully described in this report. Please refer to the "key performance list" of this report for the criteria basis for the calculation of environmental key performance.

- **Balance:** This report discloses the positive and negative impact of the Company's operations, and the disclosure methods of the report also help to understand the positive and negative trends of performance on a year-on-year basis.

- **Consistency:** This report clarifies any significant changes in the information covered. The content of the report can be compared horizontally on the basis of the year-on-year comparison.

Reporting Boundary and Sources of Information

Unless otherwise specified, the policies, statements, information and cases in this ESG Report cover all operations of the Group. The information and cases are mainly derived from the Company's statistical reports and relevant documents. The Company undertakes that this report does not contain any false information or misleading statement, and is responsible for the truthfulness, accuracy and completeness of its contents.

Unless otherwise stated, all monetary amounts involved in this ESG Report are denominated in RMB.

Confirmation and Approval

This report was reviewed and confirmed by the Board on March 30, 2023, and was approved for publication.

Access to the Report

This ESG Report is available in both Chinese and English for readers. The electronic version of the ESG Report can be accessed and downloaded from the websites of the Stock Exchange (www.hkexnews.hk) and the Company (https://www.gstzy.cn).

Feedback

If you have any further inquiries or have any comments or suggestions on this ESG Report, please contact us through:

Email: ir@360gst.com

2 RESPONSIBLE OPERATION TO ACHIEVE SUSTAINABLE DEVELOPMENT

We are fully aware of the environmental, social and governance (ESG) impacts of our business activities, and are committed to adhere to sustainable development principles in our daily business activities, promoting sound social and environmental development, and maximizing long-term benefits through good governance practices.

2.1 Board Statement

The Board of Gushengtang attaches great importance to the ESG management of the Company. The Board is responsible for the formulating the Company's ESG governance policies and strategies, and assumes ultimate responsibility for the Company's ESG work. The ESG Management Committee has been established by the Company to assist the Board in overseeing and monitoring the implementation of relevant ESG policies and measures, and to report regularly to the Board. In 2022, the Board mainly managed the Company's ESG-related matters in the following aspects:

- **ESG risk management:** The Board actively carry out the communication with stakeholders, evaluates, analyzes and prioritizes the importance of ESG issues, identifies ESG-related issues that may have a significant impact on the Company's operations and other stakeholders, and clarifies the focus and direction of ESG risk management. In addition, the Board holds regular management team meetings to conduct in-depth discussion and trend studies on the relevant ESG laws and regulations, so as to identify ESG risks more precisely in the operation process and formulate and implement effective risk management measures.

- **Goal setting and progress review:** The Board recognises the importance of sustainable development and has set important ESG targets and performance indicator based on the Company's business characteristics and formulated corresponding implementation measures to ensure the achievement of the targets, and regularly reviewed the progress in achieving ESG targets. In 2022, the ESG management committee reviewed and discussed the set targets, regularly reported and reviewed the progress of relevant targets to the Board, and took measures to promote the implementation of the targets. For details on the ESG targets management, please refer to the section "Green Development to Achieve A Low-Carbon Future" of this report.

- **Review of the results of ESG work:** The Board pays close attention to the ESG work progress of the Company, regularly reviews the ESG work condition and results, and gives action guidance on the priorities and difficulties in the work; the Board listened to and reviewed and confirmed the ESG Report of the Company and assumes responsibility on the disclosure of ESG Report.

2.2 ESG Governance

Gushengtang firmly believes that ESG-oriented sustainable development strategy is the guarantee for the long-term success of the enterprise, and will continue to take active measures to promote sustainable development practices in the traditional Chinese medicine medical industry and create greater value for stakeholders. We will periodically disclose ESG performance to demonstrate our progress and commitment in these areas.

2.2.1 ESG Governance Structure

To further support the Board in ESG governance, we have set up an ESG management committee, consisting of Mr. Tu, an executive Director and the CEO, as the chairman of the ESG management committee and in charge of ESG management, as well as two other members. The ESG management committee assists the Board to supervise the ESG governance policy and strategy, monitors the implementation of ESG policy and measures, discusses and reviews the relevant ESG targets and their achievements, and reports to the Board regularly.

2.2.2 ESG Governance Policy and Strategy

Gushengtang has always been committed to providing customers with high-quality TCM services. In order to better fulfill our ESG responsibilities, we have formulated a sustainable development vision and strategy that is consistent with the Company's business characteristics and in line with the Company's overall development strategy, so as to direct the Company's ESG efforts. The Board actively participates in the identification and evaluation of key ESG issues of the Company, and reviews the relevant risks of climate change identified by the Company, its opportunities, the analysis on its impacts and the response strategies.

- Our vision: To make traditional Chinese medicine a part of mainstream medical science in the world
- Our mission: To build China's largest new traditional Chinese medicine big health management ecosystem to empower traditional Chinese medicine the wings of internet and artificial intelligence and soar to the world!
- Our motto: Conscientious physicians, reliable pharmaceuticals (良心醫，放心藥)
- Our values: Service first, strugglers based, result oriented
- Our goal: To be the first choice of traditional Chinese medical services for the people

2.2.3 ESG Honors

Honor Title	Received Date
Award for Health Communication Social Responsibility of 2021 from "A Date with Spring-a date with health", Guangzhou Daily (廣州日報"春之約"健康有約之"2021年度健康傳播社會責任獎")	March 2022
Award as the most influential healthcare listed company of 2021 ("2021年度最具影響力醫療服務上市公司") in the honor list of annual healthcare great health industry investment and financing ("年度醫療大健康產業投融資榮耀榜"), by China Healthcare Consulting and CITIC Securities	May 2022
Included in the MSCI China small-cap index	November 2022
Listed Company with the greatest investment value quality development ("最具投資價值質量發展上市公司") in the twelfth China Securities Golden Bauhinia Awards (中國證券金紫荊獎)	December 2022
Most Valuable IPO of the Year by Guru Club	December 2022
Golden Hong Kong Stock Award 2022 by Zhitongcaijing.com (智通財經)	December 2022
Award for Investor Relationship Management of 2022 by Snowball (雪球)	December 2022
High and New Technology Enterprise Certificate (高新技術企業證書)	December 2022

2.3 Communication with Stakeholders

Effective participation of stakeholders is crucial for Gushengtang to clarify the focus and direction of ESG-related work. Therefore, we continuously improve the communication and dialogue mechanism with various stakeholders, and actively understand and respond to their demands through communication methods such as report release, surveys or other platforms, and work with various stakeholders to achieve sustainable development in the future.

Communication Methods With Stakeholders From Gushengtang And Their Key Concerns

Stakeholders	Communication methods	Key Concerns
Employees	Staff meetings Employee email Staff interview Employee activities Staff training Online opinion survey	Improving occupational training mechanism Competitive compensation package Safeguarding occupational health and safety Equal and inclusive corporate culture
Clients/Customers	Online customer service WeChat official account Customer service hotline Official website Customer satisfaction survey Customer interview	Assuring quality and safety of medical services and products Protecting customers' rights and interests Protecting customer information and privacy Ensuring compliant and responsible marketing

Stakeholders	Communication methods	Key Concerns
Investors/Shareholders/ Analysts	Shareholders' meetings Financial reports Official website Analyst briefing Public reports	Maintaining stable investment return Enhancing the Company's commercial value Protecting shareholder's investment interests Achieving corporate information transparency Strengthening ESG governance
Suppliers	Direct communication and visits Online opinion surveys Supplier meetings Bidding activities Review and assessment	Contract performance according to law Improving the supplier access and evaluation mechanism Building a responsible supply chain Practicing integrity operation
Government/Regulatory authorities	Regular visits Policy communication Organising or attending meetings Public events	Compliance operation Paying taxes in full and on time according to law Response to national policies Supporting local economic development
Media	Media conferences Media interviews Media visits	Improving corporate transparency Fulfilling corporate social responsibility
Industry associations/ Professional institutions	Industry events Visits and surveys Online opinion surveys	Promoting industry development Fulfilling corporate social responsibility

2.4 Material Issues

Gushengtang attaches great importance to the opinion and expectations of various stakeholders. Based on the Environmental, Social and Governance Reporting Guide of the Hong Kong Stock Exchange, with reference to the ESG management practices of peer companies, through the form of extensive questionnaires to assess the importance of ESG issues, resulting in the prioritization of material ESG issues of the Company's Board, management, employees, shareholders and investors, customers, suppliers and other stakeholders, which provides guidance for ESG work.

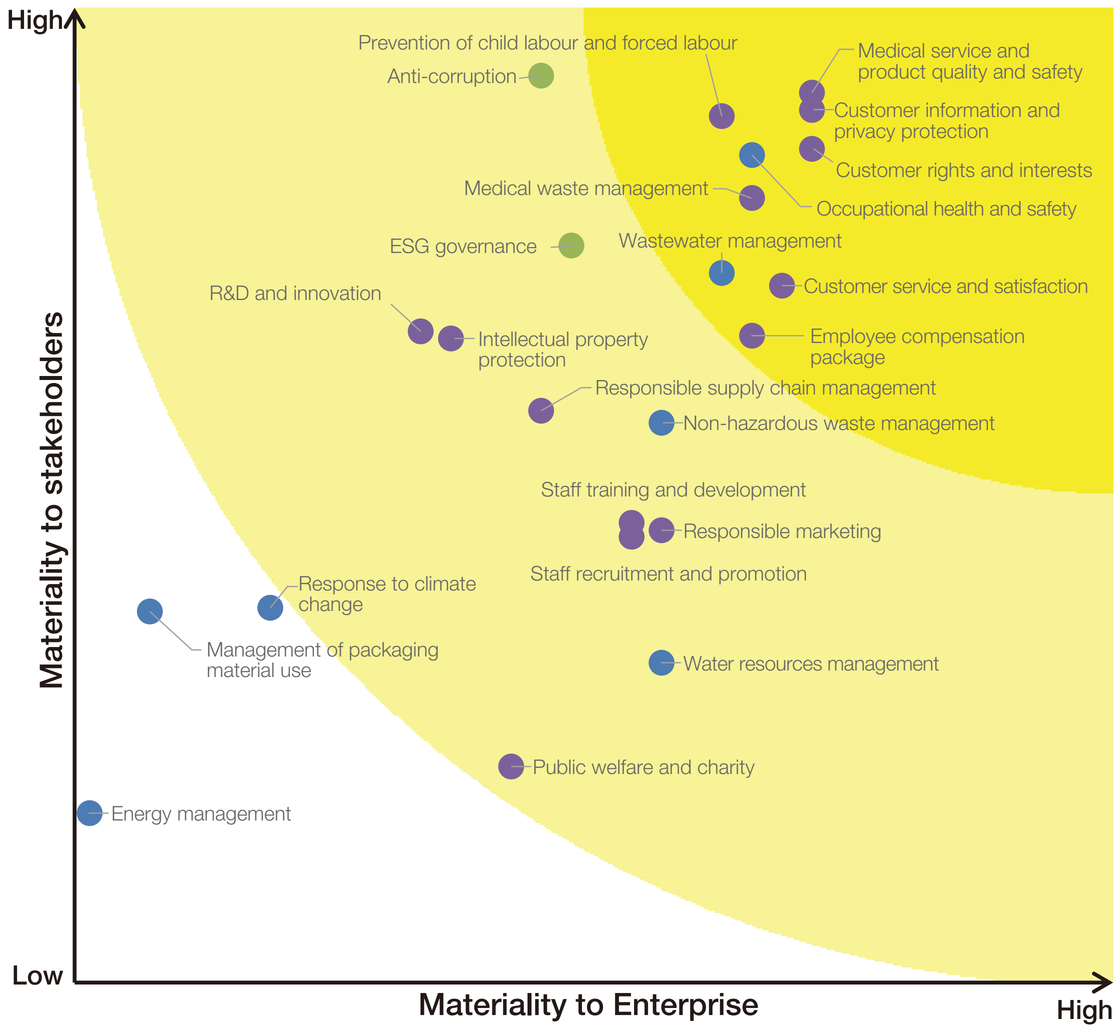
2.4.1 Materiality Analysis Process

Setting up issue bank	Set up ESG issue bank consisting of 23 issues based on the ESG Reporting Guide, by reference to the Global Reporting Initiative (GRI) and taking into account our business development situation and concerns of stakeholders as well as ESG management practices of peers.
Stakeholder Involvement	Get primary data from stakeholders through a questionnaire survey, covering 9 categories of directors of the Company, management, employees, customers/consumers, investors/shareholders/analysts, suppliers, government and regulatory authorities, media, industry associations/professional institutions. A total of 231 valid questionnaires were collected.
Issue Assessment	Based on issues of concerns of stakeholders, derive the ESG issue materiality matrix and list from two dimensions, "materiality to enterpriser" and "materiality to stakeholders". 9 issues of high importance, 11 issues of moderate importance and 3 issues of general importance were included.
Approval and Confirmation	Submit stakeholder involvement and materiality assessment results to management for approval and if approved, for highlighted disclosure in the report.

Gushengtang Materiality Analysis Process Diagram

2.4.2 Material Issues

By analyzing the survey results of stakeholders, the materiality matrix of Gushengtang ESG is derived:



Gushengtang ESG Materiality Analytic Matrix

According to the results of the above materiality assessment, there are 9 issues of highly importance, namely, medical service and product quality and safety, customer information and privacy protection, customer rights and interests, customer service and satisfaction, and medical waste management. We will focus on the performance on corresponding issues, continue to communicate with stakeholders, and continuously improve the level of ESG governance.

Gushengtang ESG Materiality Analytic List

Materiality	Ranking	Category	Content of the Issue
Issues of high importance	1	Social	Medical service and product quality and safety
	2	Social	Customer information and privacy protection
	3	Social	Customer rights and interests
	4	Social	Customer service and satisfaction
	5	Environmental	Medical waste management
	6	Social	Occupational health and safety
	7	Social	Employee compensation package
	8	Social	Prevention of child labour and forced labour
	9	Environmental	Wastewater management
Issues of moderate importance	10	Environmental	Non-hazardous waste management
	11	Social	Responsible marketing
	12	Environmental	Water resources management
	13	Social	Staff training and development
	14	Social	Staff recruitment and promotion
	15	Governance	ESG governance
	16	Governance	Anti-corruption
	17	Social	Responsible supply chain management
	18	Social	Public welfare and charity
	19	Social	Intellectual property protection
	20	Social	R&D and innovation
Issues of general importance	21	Environmental	Response to climate change
	22	Environmental	Management of packaging material use
	23	Environmental	Energy management

3 QUALITY SERVICES TO ACHIEVE EXCELLENT EXPERIENCE

Gushengtang adheres to the motto of "conscientious physicians, reliable pharmaceuticals (良心醫，放心藥)", and strictly abides by the *Drug Administration Law of the People's Republic of China*, the *Good Supply Practice for Pharmaceutical Products,* the *Product Quality Law of the People's Republic of China*(《中華人民共和國產品質量法》), the *Regulations on the Supervision and Administration of Medical Devices* and other relevant laws and regulations. It has formulated and implemented internal rules such as the *Quality Risk Management Rules*(《質量風險管理制度》),the *Internal Review Rules of Quality Management System*(《質量管理體系內審制度》), the *Quality Information Management Rules*, the *Drugs Procurement and Quality Assessment Management Rules*(《藥品採購和質量評審管理制度》), the *Quality Control System for Pharmaceutical Operation Risks*, *Quality Complaint*, *Quality Accident Management Rules* to standardize the entire process of the Company's drug business. On the basis of ensuring the compliance of the drug circulation, we provide patients with better TCM services and TCM products.

Guangzhou Blue Ocean Pharmaceutical Co., Ltd. and Zhejiang Gusheng Pharmaceutical Co., Ltd.(浙江固生醫藥有限公司), subsidiaries of the Company, have obtained the Pharmaceutical Operation Permit, and Guangzhou Blue Ocean Pharmaceutical Co., Ltd. has obtained the Class II Medical Device Filing Certificate.

3.1 Reassuring Service, Health Care With Conscience

Gushengtang continuously improves the quality of TCM diagnosis and treatment services, and is committed to providing customers with high-quality medical services. Meanwhile, we continue to improve the Company's customer service process and management system to safeguard customers' rights, privacy and information security. We attach great importance to responsible marketing efforts and ensure the compliance of marketing efforts through the implementation of various aspects of work.

3.1.1 Quality TCM Diagnosis and Treatment

Gushengtang fully understands the requirements of new development phase, new development philosophy and new development paradigm under "14th Five-Year Plan", actively responds to the goals of the "14th Five-Year Plan for the Development of Traditional Chinese Medicine (「十四五」中醫藥發展規劃)", builds a quality and efficient TCM service system, enhances the ability of TCM health service, optimizes the mode of traditional Chinese medicine medical services to develop TCM health service industry.

"Universal" • Platform

We initiated a new "online+offline" medical service model, actively explored a new "internet+TCM" service model, and cooperated with many online platforms and public medical institutions to improve the accessibility of traditional Chinese medical services.

We own and operate various online channels such as official website, mobile apps, WeChat official accounts and mini programs, and offer online appointment, follow-up consultation and diagnosis and prescription services. As of December 31, 2022, we have established cooperation partnerships with 13 third-party online platforms to offer online-appointment services to customers.

In order to better promote the "online+offline" integrated services and popularize remote medical services, we created the OMO ("online-merge-offline") medical network platform to quickly respond to customer needs through internet, so that the platform's doctors resources cover areas that are difficult to reach by traditional medical institution, and provide more patients with high-quality TCM diagnosis and treatment services to promote the improvement of grassroots medical service level.

Case: Let Patients See Reputable Physicians without Going Out of Home

In 2022, during the repeated outbreaks in various areas in the country, Gushengtang invited over 4,000 TCM reputable physicians to offer remote medical services such as online medical consultation, continued prescription, decoction of TCM and delivery of medicine to home, covering all departments, meeting the needs of patients of different ages and different diseases, with professional knowledge and good curative effects to solve the difficulty of medical treatment for citizens.

Annual Key Data

- Number of online platform users: 480,223
- Cross-regional patients: 263,008

"Benefit" • Service

We are rooted in grassroot medical services, requiring all branches to guarantee the proportion of medical insurance reimbursement that are available, allowing more patients to obtain high-quality TCM diagnosis and treatment services at affordable prices, bringing affordable health to more patients, and leading the way to inclusive and high-quality TCM diagnosis and treatment. In Guangzhou, all branches of Gushengtang have achieved full coverage of medical insurance. As primary clinics, our reimbursement ratio of medical insurance is higher than that of the Class III Grade A hospitals, so that patients can obtain more high-quality TCM resources with lower consumption and obtain real benefits. In addition, we are also actively working with medical institutions such as Class III Grade A hospitals to provide better medical resources to patients.

Case: Cooperation with Multiple Medical Institutions

Gushengtang has reached cooperation with a number of medical institutions, and will jointly build a Foshan TCM Medical Institution Alliances Demonstration Project (佛山中醫醫聯體示範項目) with Foshan Hospital of TCM affiliated to Guangzhou University of Chinese Medicine, in respect of the cooperation in TCM elderly health services. We will work with Lingnan School of Dermatology Inheritance Studio (嶺南皮膚病流派傳承工作室) to build a Dermatology Specialist Department (皮膚病專病科室), so that the broader community of patients can be more easily access to high-quality TCM resources.

Gushengtang Reached Cooperation in Medical Institution Alliances with Foshan Hospital of TCM Affiliated with Guangzhou University of Chinese Medicine

"Great" • Experience

We established inheritance workshops for reputable TCM physicians, providing all-round TCM medical services in prevention, treatment, health management and personalized medical care, so that reputable physicians can continue to provide high-quality curative and customer experience, while lead a team of high-quality young physicians to achieve the inheritance of traditional medical care.

Case: Peng Taiping Reputable Physician Studio (彭太平名醫工作室)

Gushengtang established Peng Taiping Reputable Physician Studio (彭太平名醫工作室), brought the diagnosis and treatment services of reputable old physicians to the community, and provided better TCM services to the residents in the community who seek medical treatment. It is convenient for more patients to solve various types of fractures, dislocation, pain in neck, shoulder, waist and leg, injury of tissues, acute arrhythmia, cervical dizziness, cervical gastrointestinal dysfunction and other incurable diseases.

Professor Peng Taiping is the third batch of instructing teachers of TCM in China. He has worked in Fujian University of Traditional Chinese Medicine, Jiangxi University of Chinese Medicine, Hong Kong Baptist University and other colleges and universities, and engaged in clinical and teaching work of traditional Chinese medicine for bone injuries for over 50 years, with rich clinical and teaching experience. Professor Peng Taiping is good at curing fracture, dislocation, various kinds of injury of tissues and injury of soft tissues, bone tumors, osteoarticular degenerative disease, osteoporosis as well as internal injury and miscellaneous diseases of pain of neck, shoulder, waist and leg and sequelae of cerebral concussion and other diseases.

We originated from the conventional TCM diagnosis and treatment methods of primary care, and developed diagnosis and treatment methods combining TCM and western medicine. Through high-quality, efficient TCM and western medicine combination services, we provide customers with comprehensive medical care health solutions and meet their diverse needs in medical care health management, improving efficiency of diagnosis and treatment and reducing treatment costs.

Case: Establishment of Joint Studio of TCM and Western Medicine

Gushengtang established Yang Chengxiang • Xu Chengkang Gynecology Department of TCM and Western Medicine Joint Studio (楊承祥•徐成康婦科中西醫聯合工作室)and many other famous TCM workshops. In the way of TCM and western medicine combination to treat infertility and through internal and external treatment, pre-and post-operation conditioning to improve efficiency of pregnancy preparation and shorten treatment cycle. TCM and western medicine combine and complement to each other, give full play to the advantages of combined use of TCM and western medicine, greatly improve the efficiency of diagnosis and treatment, reduce the cost of treatment and help more families to fulfill their dreams.

Doctor Yang Chengxiang is the academic heir of professor Yang Xinwu (楊新吾), a Chinese gynecologist, and a 24th generation heir of Er Shan Yang's gynecology department. He successively worked in the First Affiliated Hospital of Anhui University of Chinese Medicine (安徽中醫藥大學附屬第一醫院) and the First Affiliated Hospital of Sun Yat-sen University. He has engaged in TCM and TCM and western medicine combination clinic for nearly 40 years. Dr. Yang Chengxiang is good at treating various gynecological and obstetric diseases and male infertility, and has experience in the treatment of other miscellaneous diseases of internal medicine.

Dr. Xu Chengkang currently works at the Gynecology and Obstetrics Department of the First Affiliated Hospital of Sun Yat-sen University, and also serves in the editorial board of Chinese Journal of Clinicians and is a member of Guangdong Province Medical Expertise Committee. Dr. Xu Chengkang's scientific research direction is the restoration of reproductive function and Laparoscopic Gynecology Operation, specializing in various gynecological minimally invasive surgeries.

Gushengtang Established Yang Chengxiang • Xu Chengkang Gynecology Department of TCM and Western Medicine Joint Studio (楊承祥 • 徐成康婦科中西醫聯合工作室)

3.1.2 Customer Service Management

Gushengtang always adhere to the corporate value of "service first" and established a service system covering the whole country, and continues to optimize the customer service process and management system. We have formulated internal management rules such as the *Customer Service Manual* and established professional customer service team, responding to customer needs in a timely and efficient manner to improve customer experience.

Optimizing Complains Management

Gushengtang has formulated the *Customer Complains Handling Process* to provide smooth complaint channels such as 400 hotline, WeChat official account and third-party channels. We established a nationwide customer feedback channel, and a professional customer service team in the operation center, classify complaint cases based on specific situation (from level 5 to level 1, the severity of which increases gradually), to handle the customer feedback against each branch in the country in a timely manner, respond to the customers' problems arising from visiting service and after service. We continue to optimize the service process and supervising system internally, and escalate customer complaints that remain unresolved beyond the time limit to resolve customer demands in the shortest time possible.

Annual Key Data

- Cumulative number of online and offline customers: 2,732,824
- Average customer service response time: 10 seconds
- Number of customer complains: 21
- Average closing time for complains: 1 hour
- Complains closure rate: 100%

Improving Customer Satisfaction

Gushengtang pays close attention to customer satisfaction. Through SMS push satisfaction survey, we understand the customer's views and suggestion to service experience, and improve the problems raised in the customer satisfaction survey, and continuously optimized the service quality.

Annual Key Data

- Customer satisfaction survey: 441,970
- Customer satisfaction: 98%

3.1.3 Customer Information and Privacy Protection

Gushengtang strictly abides by the *Data Security Law of the People's Republic of China*, the *Personal Information Protection Law of the People's Republic of China* and other laws and regulations, and has formulated and implemented internal management rules such as the *Gushengtang Group Data Classification and Confidentiality Management Rules* and the *Management Rules for Employee Identity and Access*, the *System Data Security Management Rules*, the *User Data Protection Management Rules* to standardize the information management system, work systems and processes, technical prevention and confidentiality etc., strengthen personnel management and education and training, and effectively safeguard the lawful rights and interests of customers and the Company's information security.

We attached great importance to information system security and continuously improve the overall level of information security through the optimization of network security and storage security. Currently, we have filed for the security level protection of the third-level information system for several branches and subsidiaries.

Gushengtang Information Security Relevant Rules

Relevant Rules	Main Contents
Gushengtang Group Data Classification and Confidentiality Management Rules	Sort out the importance and sensitivity of information, assess possible risks of information leakage, classify the information and take corresponding security management measures
Management Rules for Employee Identity and Access	Clarify the departments accountable for access management and standardize the application process of access to business system
System Data Security Management Rules	Clarify the responsible department for system operation and maintain, standardize modification and configuration adjustment of system data
User Data Protection Management Rules	Clarify the protection mechanism of user personal information, standardize process of user personal information protection and improve personnel management and education and training
Cyber and Information Security Emergency Plan	Standardize the response and handling process of information security incidents

We established information security leading group, to make overall planning for the company's information security work.

- **Information security leading group:** Responsible for formulating and supervising the information security incident handling process, approving and publishing the results for information security incident handling.

- **Information Center:** Responsible for the implementation and improvement of the information security incident handling process, regularly review the information security incident handling status, supervise the implementation of the process, and propose corresponding improvements opinion for the implementation of the process.

We manage information security incidents according to three factors: the materiality of information systems, system losses and social impact. After the information security incident occurs, we will rectify the defects in the system in a timely manner, evaluate the persons responsible for the incident, and hand over the persons responsible who has violated laws and regulations and endangered national security to judicial organizations or relevant competent authorities for handling.

Gushengtang Information Security Incidents Classification

Ranking of the Incidents	Magnitude	System Losses	Social Impacts	Responsible Persons
Especially Material Incidents (Class I)	Especially Material Information System	Especially Material Losses	Material threats to national security and cause social unrest, have extremely negative impact on the economic interests of enterprises or have seriously damaged their reputation and public interests	Reported by information center in order to be handled by information security leading group, and approved by information security leading group
Material Incidents (Class II)	Especially Material Information System Material Information System	Material Losses Especially Material Losses	Threats to national security and cause social panic, have material negative impacts on the economic interests of enterprises or have damaged their reputation and public interests	Reported by information center in order to be handled by information security leading group, and approved by information center

Ranking of the Incidents	Magnitude	System Losses	Social Impacts	Responsible Persons
Important Incidents (Class III)	Especially Material Information System Material Information System General Information System	Important Losses Material Losses Especially Material Losses	May impact the national security, disrupt the social order, have a certain negative impact on the economic interests of the enterprises, or impact the reputation of the enterprise and the public interests	Organized and handled by information center and approved by information center
General Incidents (Class IV)	Especially Material Information System Material Information System General Information System	Less Losses Important Losses Material Losses	Has little impact on national security, social order, economic interests of enterprises, corporate reputation and public interests, but causes damage to the interests of individual citizen, legal persons or other organizations	

In order to ensure the normal operation of each business system, ensure the timely response, handling and follow-up of network and system security incidents, and ensure the continuous and safe operation of the network and system, we have set up a complete processing process:

Gushengtang Information Security Incidents Handling Process

We have adopted a series of measures for employees, customers and suppliers respectively to reduce the risk of information leakage.

Gushengtang Information Security Measures

Employees	Customers	Suppliers
• Enter into NDA, providing for data protection and confidentiality obligations • Organize regular trainings for employees • Set up access control • Encrypt data transmitted, do not transmit key data unless necessary	• Indicate the purpose, application and method of collecting sensitive personal data before doing so	• Provide for data protection obligations and default liabilities

3.1.4 Adhering to Business Ethics

For a long time, Gushengtang has attached great importance to business ethics. By establishing a sound anti-corruption management system and responsible marketing management system, it has formed effective constraints on working processes and ensured that employees' business behavior complies with the law and regulations.

Anti-Corruption

We are committed to establishing and improving the risk internal control system, improving the construction of the anti-corruption management system, strictly abiding by the *Anti-Unfair Competition Law of the People's Republic of China*, the *Anti-Money Laundering Law of the People's Republic of China*, the *Bidding Law of the People's Republic of China*, the *Foreign Corrupt Practices Act*. We have formulated and implemented internal management rules such as the *Measures for Commercial Integrity Management of Gushengtang Group*, the *Anti-fraud and Reporting Rules*, clarify the Company's anti-corruption management mechanism from the aspects of integrity responsibility attribution, prevention and control methods, reporting, investigation and punishment measures.

Gushengtang is strictly prohibited from soliciting, offering or accepting in any name valuable gifts or services from others. The management of the Company is responsible for reviewing the Company's integrity management rules, evaluating and controlling the risks of bribery, corruption and fraud of the Company, and promoting the Company's anti-corruption policies and corporate culture of honesty and integrity. Meanwhile, heads of departments and regions actively supervise the behaviors of the Company's management, assisting to improve the Company's risk internal control mechanism. In addition, we require new employees to sign the Employee Integrity Agreement when they join us to clarify their obligations of integrity and uphold integrity.

Whistle-blowing Management

Gushengtang has various whistle-blowing channels. The management of the Company, staffs and other stakeholders are encouraged to actively report disciplinary offences via means of whistle-blowing telephone, email or letters, to collectively participate in building an anti-corruption management system.

In order to protect the legitimate rights and interests of the whistle-blowers, Gushengtang requires that the personnel responsible for receiving whistle-blowing and complaint information to keep the relevant information highly confidential and not to disclose them to any organization or individual without authorization. We uphold zero-tolerance attitude toward behaviors such as divulging the whistle-blower's information or retaliate against the whistle-blower, once discover, their contracts will be terminated and those who violate the law will be transferred to the judicial authorities for handling. Gushengtang encourages employees to protect the Company's interests and those who have made significant contributions through whistle-blowing were rewarded.

The internal audit department of the Company is responsible for the management of whistle-blowing, recording and reporting to the superior in a timely manner after receiving the whistle-blowing information, so as to establish and implement a standardised whistle-blowing process:

Whistle-blowing information → Preliminary review of whistle-blowing information → Confirmation of whistle-blowing information → Carry out investigations → Issuance of investigation report → Close the investigation and archive relevant documents

The Whistle-blowing Management Process of Gushengtang

In 2022, there will be no litigation cases involving bribery, extortion, fraud, money laundering, corruption or corruption in Gushengtang.

Integrity Education

Gushengtang attaches great importance to the training and publicity of integrity culture, with an aim to continuously improve employees' awareness of integrity and self-discipline, and establish a correct moral orientation for employees, and prevent the occurrence of violations of laws and disciplines from the source of thought.

In 2022, Gushengtang's director and employees received an average of 1 hour of anti-corruption training, of which the number of directors trained is 9 and the number of employees trained is 1,856.

Case: Confidentiality and Anti-corruption Information Session

On July 7, 2022, Gushengtang held confidentiality and anti-corruption information session within the Company, and publicized key issues such as trade secret protection, non-compete restrictions, anti-corruption and anti-bribery.

Confidentiality and Anti-corruption Information Session

Annual Key Data

- Number of litigation cases related to corruption brought against the Company or its employees and concluded: 0

Responsible Marketing

In our daily marketing activities, we strictly abide by the *Trademark Law of the People's Republic of China*, the *Civil Code of the People's Republic of China*, the *Advertisement Law of the People's Republic of China* and other laws and regulations. Meanwhile, we provide regular training in marketing compliance knowledge to employees, constantly improve the level of professional service of the employees and ensure the compliance of the marketing behaviors.

The Company has established a Compliance Committee to conduct compliance inspection through regular online meetings or training, and regularly require all regional heads to conduct self-inspection of publicity materials to ensure the authenticity and compliance of publicity work. At the same time, adhering to a scientific, rigorous and responsible attitude, we carry out communication work such as popularization of medical science, popularization of health science, and publicity of doctors to the public. We require that all communication materials must go through 2 rounds of review. For those materials involving medical knowledge, there are additional review process to ensure the compliance of the content.

3.2 Strict Quality Control, Medicine with Confidence

As a medical institution, Gushengtang knows that product quality management and research and development are important factors for the sustainable and innovative development of the Company. We have been providing high-quality TCM products to the majority of patients, continuously improving the product quality level, and are committed to strengthening product quality management and research and development to ensure the safety, efficiency and reliability of products, and continuously providing high-quality products to customers and society to meet the evolving needs of customers.

3.2.1 High-quality TCM Products

Adhering to the spirit of entrepreneurship and craftsmanship, Gushengtang strictly selects high-quality Chinese medical materials, and at the same time introduces advanced technology to Chinese medicine, so that Chinese medicine continuously innovate under inheritance.

Traceability planting

We traced the cultivation of high-quality Chinese medical materials to the source, insisted on strict control of TCM in the selection and testing of medicines, and hired well-known experts such as Professor Zhang Danyan of Guangzhou University of Chinese Medicine and Professor Wu Lihong of Shanghai University of Traditional Chinese Medicine to Gushengtang to conduct quality appraisal of decoction pieces on a regular basis. Control is carried out in terms of characteristics, physical and chemical distinction, content and harmful substances, etc. And the TCM laboratory has set up acceptance standards for Chinese medicinal materials without agricultural residues that are higher than those of other enterprises in the same industry, regularly send to inspect aflatoxin and pesticide residues, ensure product quality from the source, and stick to the motto of "conscientious physicians, reliable pharmaceuticals (良心醫，放心藥)" from the perspective of safety, compliance and effectiveness.

Inheritance and Innovation

We have a high-level team of R&D talents with Chinese medicine characteristics, firmly implement the traditional Chinese medicine inheritance system, enhance R&D capabilities through the establishment of preparation centers, form a high-quality and efficient TCM service system and a standard system of market-oriented operation of famous TCM, so as to enable classic famous TCM industry treasures to be inherited.

Benefit to people, Good products

We hired Tao Ling, director of the Third Affiliated Hospital of Sun Yat-sen University, as the preparation development director, and gave all-round guidance from prescription selection, process development and quality standard formulation, preparation application, and successfully declared two products, Nasal Congestion Relief Granule (通竅止涕鼻舒顆粒) and Jian Pi Hua Zhi Gao (健脾化脂膏) in 2022.

Case: Research & Development of Nasal Congestion Relief Granules (通竅止涕鼻舒顆粒)

In December 2022, Nasal Congestion Relief Granule (通竅止涕鼻舒顆粒), the first TCM preparation of Gushengtang, obtained the medical institutions TCM preparation filing certificate from the Drug Administration of Guangdong Province. Gushengtang has experience more than 5 years of clinic verification to transmute mature prescription of rhinitis into Nasal Congestion Relief Granule (通竅止涕鼻舒顆粒), applicable to allergic rhinitis, nasosinusitis, Adenoidal hypertrophy and O SAS. The approval of registration of Nasal Congestion Relief Granule (通竅止涕鼻舒顆粒)is a major step towards the productization of Gushengtang's medical solutions, which can better realize the commercialization of medical resources.

Nasal Congestion Relief Granule(通竅止涕鼻舒顆粒)

3.2.2 Product Quality Management

Gushengtang has long been committed to establishing a complete product quality management system, building and improving the quality management structure and risk control system, establishing a product recall process that has been verified by practice, and at the same time continuously strengthening the quality management awareness of all employees, through the collection of customer feedback and market information, continuously optimizing the product quality management system to enhance our product competitiveness.

Management Structure

Gushengtang regards product quality as the foundation of the company's business activities, establishes a complete quality management structure, and is responsible for the formulation and implementation of quality management measures through multi-department joint work, and strictly controls product quality.

Gushengtang Quality Management Structure

Management Structure	Duties
Person-in-charge	• Concurrently head of the quality leadership team • The chief decision-maker, who is responsible for determining the Company's quality policies and objectives, is the highest decision-maker in formulating the Company's various rules and regulations
Person in charge of quality	• Concurrently deputy head of quality steering group • Entrusted by the head of the enterprise, review and implement the Company's quality management system, optimize the process and supervise the implementation of the Company's quality management work
Manager of each functional department	• Concurrently member of quality steering group • Under the leadership of person in charge of quality, establish and continuously improve the quality management system, implement the quality management policy of the Company, and guide the staff of each function to complete the quality management work

Quality Risk Control

Gushengtang attaches great importance to quality risk control, and in strict compliance with relevant laws and regulations, has formulated the Quality Control System for Pharmaceutical Operation Risks. All employees of our Company are required to assume joint responsibility for all-round and whole-process management of drug quality risks and apply management guidelines for systematic and standardized quality risk identification, assessment, control, communication and audit processes for all aspects of the product life cycle.

- **Risk supervision:** We set up a pharmaceutical management committee, develop quality compliance inspection standards, and conduct regular evaluation and supervision of quality management practices in each division to continuously improve the quality management level.

- **Risk assessment:** We conduct annual summaries in the form of pre-assessment and retrospective assessment to proactively identify and control potential quality issues during product operations and further assure and strengthen product quality.

- **Acceptance of medicinal materials:** We set up an incoming goods acceptance team, consisting of profoundly qualified Chinese medicine identification professors and professional maintenance staff, who are responsible for the acceptance and warehousing management of medicines.

- **Quality check by stores:** We require the store staff to re-control the quality of drugs to prevent unqualified drugs from entering the market and to strengthen drug safety supervision and ensure the safety of customers' medication.

Product Recall Management

Gushengtang strictly complies with the laws and regulations such as Drug Recall Management Measures, formulates and implements internal policies and systems such as Drug Recall Operation Procedures and Drug Recall Management Rules, standardizes the drug recall process, makes recall level classification for drugs entering into the market, formulates different response times and disposal measures according to different severity and emergency, keeps detailed records of handling process, and submits a recall report to the local competent department after the recall is completed, so as to effectively prevent major quality accidents from occurring.

Hierarchy Management of Drug Recall of Gushengtang

Recall level	Severity	Recall limit
Level 1 recall	The drug may cause serious health hazards	Within 24 hours
Level 2 recall	The drug may cause temporary or reversible health hazards	Within 48 hours
Level 3 recall	The drug generally does not cause health hazards, but will be recalled due to other reasons	Within 72 hours

Drug Recall Process of Gushengtang

In 2022, some drugs were recalled by the manufacturers due to test results close to the threshold specified in the pharmacopoeia, or due to factors such as appearance properties that may cause quality risks, and all recalls initiated by Gushengtang have been executed in accordance with the process requirements, and the recalled products did not enter the market and did not cause the health and safety risk of consumers.

Quality Culture Building

Gushengtang regularly holds internal quality training activities and actively organizes quality steering team members to discuss the continuous optimization of business processes to ensure that all employees of the Company are familiar with relevant laws and regulations and regulatory requirements, and enhance the awareness of compliance of all employees to complete drug quality management effectively and efficiently.

Internal Quality Training of Gushengtang

3.2.3 Product R&D and Innovation

Gushengtang attaches importance to product innovation, continues to increase R&D investment, continuously expands the scope of research and development, and improves technical level and innovation ability. We give full play to the characteristic advantages of TCM, take clinical efficacy as the starting point, attach importance to the comprehensive effect of TCM formula prescription, continue to explore important preparation innovation ideas and methods in line with the development trend of TCM, and devote ourselves to developing innovative products while continuously optimizing existing products to meet the evolving needs of the market and customers and build a high-quality and efficient TCM service system.

In order to continuously strengthen Gushengtang's R&D and innovation capabilities, we are ready to set up a medical institution preparation center and established a partnership with the Guangdong-Macao Cooperation TCM Industrial Park to carry out the integration of industry, academia and research, TCM industrialization and modernization, and promote the high-quality development of the medical institution preparation industry.

Case: Extensive University-enterprise Cooperation

On May 27, 2022, Gushengtang and Zhejiang University of Traditional Chinese Medicine held cooperation talks covering a wide range of issues such as talent training, discipline construction, scientific research projects and medical construction, and reached preliminary cooperation intentions. In the future, Gushengtang will join hands with Zhejiang University of Traditional Chinese Medicine to accelerate the integration of TCM clinics in Zhejiang Province, promote the cooperation with the University and its affiliated hospitals, and jointly build a national TCM all-round reform demonstration area in Zhejiang Province.

Cooperation Negotiation Meeting between Gushengtang and Zhejiang University of Traditional Chinese Medicine

3.2.4 Intellectual Property Protection

Gushengtang always attaches great importance to the protection of intellectual property rights. While respecting the achievements of others, it also protects legitimate rights and interests of the Company. In strict compliance with the *Trademark Law of the People's Republic of China*, the *Patent Law of the People's Republic of China*, the *Anti-Unfair Competition Law of the People's Republic of China*, the *Trade Marks Ordinance of Hong Kong* and other laws and regulations, we have formulated internal rules such as the *Management Measures for the Protection of Trade Secrets of Gushengtang Group* and the *Management Measures for Intellectual Property Rights of Gushengtang Group* to continuously optimize our intellectual property management system, improve the standardization of our intellectual property protection process, and create an honest and compliant business environment.

Protecting our own intellectual property rights from infringement

We have formulated a classification and confidentiality management system for trade secret data, and classified all company information into four levels according to the degree of confidentiality, namely top secret, confidential, secret and internal; all employees are required to sign the Non-competition Restriction Agreement, Confidentiality Agreement and Invention Transfer and Ownership Agreement before joining the Company, which specify employees' confidentiality obligations and state that the intellectual property results generated shall belong to the Company.

Prevention of infringement upon others' intellectual property right

We formulated the *Measures for the Administration of Intellectual Property Rights of Gushengtang Group*, established a complete risk assessment process, and standardized the whole process from application to registration and protection of intellectual property rights.

- R&D project approval stage: to carry out macro analysis of IPRs at the product launch stage and carry out analysis and protection of infringements upon IPR during the R&D process

- R&D completion stage: to complete infringement risk analysis before product launch, ensure controllable risk of launched products, and start IPR registration and protection work

Annual Key Data
• Number of infringements upon other's IPR: 0 • Number of IPRs infringed: 0

4 GREEN DEVELOPMENT TO ACHIEVE A LOW-CARBON FUTURE

Gushengtang takes green and low-carbon development as one of the Company's important strategies, and is committed to minimizing the impact of business operations on the environment. It has implemented a top-down management system of environmental impact, and strictly complied with laws and regulations and local environmental requirements. It has formulated and firmly implemented the *Gushengtang Group ESG Management Rules* and environmental protection work goals to carry out environmental monitoring and evaluation work, strengthen employee environmental awareness education and training, strictly manage emissions, and improve resource utilization.

4.1 Response to Climate Change

Gushengtang deeply recognizes the important challenges that climate change brings to social economic and social development, and to the healthcare industry and the Company's operation. Based on the Company's main business operations, Gushengtang takes the initiative to identify the potential risks and opportunities that climate change may bring and takes appropriate measures to actively respond, so as to reduce the Company's interaction with climate change. Gushengtang has established the *Gushengtang ESG Management System* and is actively responding to extreme weather impacts from climate change, etc., with reference to the emergency management methods of the place where its business operation is located.

Our greenhouse gas emission reduction target: Through the use of management tools, we will continue to make energy conservation plans to achieve annual carbon emission growth of not exceeding 5% in the context of the expected growth of 10% in the production plan in 2023.

We have identified the following major climate risks and countermeasures:

Identification of Climate Risks and Countermeasures of Gushengtang

Risk type	Risk description	Countermeasures measures
Transitional risk	• Manufacturing activities in the PRC are subject to the PRC national environmental laws and regulations as well as environmental regulations and standards promulgated by relevant local government authorities. Laws and regulations in relation to environmental protection may change from time to time and such changes may have certain impact on the production and operation activities of the Company • Any breach of or threatened claims against the Company in relation to any environmental laws and regulations will adversely affect the Company's reputation and credibility	• The Company has adopted a series of control measures to minimise the risk of environmental pollution and non-compliance with applicable environmental laws and regulations

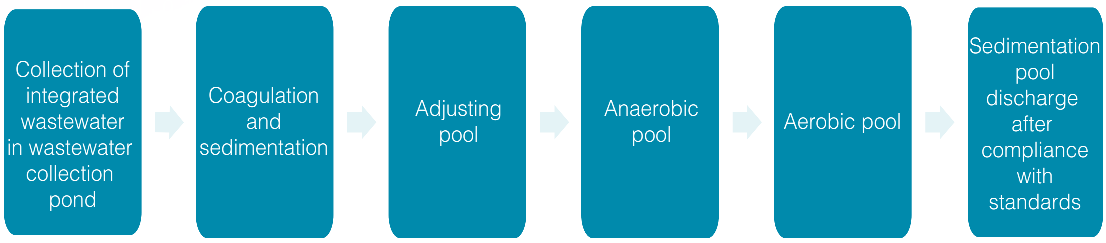
Risk type	Risk description	Countermeasures measures
Physical risks	• With climate change, global temperature may continuously rise, resulting in an increase in electricity consumption, which in turn drives the increase in raw material costs such as TCM decoction pieces • Rising global temperatures may also lead to more unpredictable weather conditions, such as frequent occurrence of severe typhoons, droughts, floods and sudden changes in rainfall. These weather conditions are expected to cause disruptions to transportation services, which in turn may lead to delays in delivery of raw materials and the Company's products, bringing adverse impacts to the Company's supply chain	• The Company will continue to pay attention to the recycling of recyclable resources to minimize the impact of resource consumption on the external environment (e.g. Chinese medicine dregs generated during the cooking process are used for fertilizers) • Actively communicate with stakeholders including customers, suppliers and investors to disclose the Company's strategies and other information related to climate change

4.2 Emission Management

In strict compliance with relevant laws and regulations on pollutant emissions prevention and control, and on the basis of establishing a sound environmental management system, Gushengtang has continuously optimized and improved the Company's initiatives on sewage, exhaust gas and solid waste, and continuously implemented a number of green environmental protection measures to implement energy conservation and emission reduction.

4.2.1 Wastewater Management

Gushengtang strictly abides by relevant laws and regulations of the places where we operate, such as the *Law of the People's Republic of China on the Prevention and Control of Water Pollution*, formulates and implements relevant internal management policies and rules. In accordance with the requirements of the pollutant discharge license, we regularly appoint third-party testing agencies to conduct environmental monitoring to ensure compliance in sewage discharge. In the future, we will continuously reduce the discharge of sewage and relevant water pollutants by continuously ensuring stable operation of the sewage treatment system, optimizing and improving the sewage treatment facilities.



Workflow of Wastewater Treatment System of Gushengtang

4.2.2 Exhaust Gas Management

Exhaust gas generated during the Company's operation is mainly exhaust gas from the TCM decoction business, and exhaust gas and greenhouse gas generated from the use of official vehicle fuel and other energy sources. Gushengtang strictly abides by the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution and other relevant laws and regulations of the places where it operates, formulates and implements relevant internal management policies and rules to implement effective management of exhaust gas emissions.

Our goal of management of exhaust gas: To continuously reduce exhaust gas emissions.

In order to achieve the management goal of exhaust gas, we will take a series of measures for exhaust gas collection and treatment, the details of which are as follows:

- Exhaust gas collection: We give priority to the use of closed facilities to reduce the fugitive emission of exhaust gas and improve the efficiency of exhaust gas collection.

- Exhaust gas treatment: We adopt the "pray + activated carbon adsorption" treatment process for exhaust gas, conducted harmless treatment of exhaust gas to reduce the concentration of exhaust gas emissions, and regularly invited professional environmental monitors to monitor, to ensure exhaust gas emissions compliance with emission standards.

4.2.3 Solid Waste Management

Gushengtang strictly abides by the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes, the *Regulations on the Administration of Medical Wastes* and other relevant laws and regulations of the places where it operates, formulates and implements relevant internal management policies and rules, standardize the methods and processes of solid waste collection and disposal, and avoid pollution to the soil and surrounding environment.

In order to further improve the Company's solid waste management, we have set a management goal to reduce solid waste emissions.

Our goal of management of solid waste: To generate not more than 8 kg of hazardous and non-hazardous solid waste per month in each store.

In order to achieve the management goal of solid waste, we strengthen the standard management of feeding operations to avoid the occurrence of non-standard operations such as more feeding and less feeding, and reduce the generation of solid waste. At the same time, we also strengthen the repair and maintenance of equipment and facilities to keep them in normal working condition and reduce solid waste caused by human factors.

Based on the characteristics of the main business of TCM medical services, solid waste management is one of the most important parts in our environmental protection work. The main sources and treatment methods of waste are as follows:

Main Sources and Treatment Methods of Solid Waste of Gushengtang

Waste type	Main sources	Treatment methods
Non-hazardous waste	• Office and household waste • Production general solid waste	• Collected and stored in a unified manner, and classified and recycled according to the waste classification standards • Handed over to the relevant units such as municipal sanitation for treatment
Hazardous waste	• Medical waste, including acupuncture needles, TCM residues, laboratory waste, gas adsorption activated carbon, etc.	• Collected, classified and stored in accordance with relevant internal management policies and rules • Regularly hand it over to qualified disposal agencies for proper disposal

Annual Key Data

- Total hazardous waste produced: 20.59 tonnes
- Total non-hazardous waste produced: 1,322.58 tonnes

4.3 Resources Management

Gushengtang actively responds to the government's call for energy conservation and consumption reduction, and integrates the environmental protection concept of energy conservation and consumption reduction and sustainable use of resources into daily operations. We have established a resource management system, gradually established a corporate culture of green operation, adopted a series of measures to improve resource utilization efficiency, reduce resource waste, comprehensively promote resource conservation and sustainable use.

4.3.1 Energy Management

Gushengtang strictly abides by the *Energy Conservation Law of the People's Republic of China* and other relevant laws and regulations in the places where it operates, formulates and implements relevant internal policies and rules, and formulates energy management goals based on the data of current energy utilization key performance indicators.

Our goal of energy management: Striving to reduce energy consumption per unit income on a continuous basis.

The Company's energy consumption mainly comes from the electricity consumed in daily office and store operations. In the Energy Conservation Proposal, we encourage all colleagues to implement the required electricity conservation measures like timely switching off the power and controlling the temperature of air conditioners. On this basis, we actively plan site resources in new construction projects, apply green building and building energy-saving technologies, upgrade equipment required for daily business operations such as decoction machines to reduce resource and energy consumption and improve environmental benefits.

Annual Key Data
• Gasoline consumption for the year: 39,696.07 litre • Purchased electricity for the year: 10,054,066.53 kWh

4.3.2 Water Resources Management

All water used by Gushengtang in its business activities comes from municipal water supply and is not currently under pressure to obtain water resources. Gushengtang strictly abides by the *Water Law of the People's Republic of China* and other relevant laws and regulations in the places where it operates, formulates and implements relevant internal policies and rules, and formulates water resource management objectives, combined with the current key performance indicators of water resources utilization.

Our goal of water resources management: Striving to improve the utilization efficiency of water resources and reduce the water resource consumption per unit income year by year.

We have adopted a series of measures to improve the efficiency of water resources utilization. The details are as follows:

- Production and operation water saving
  - — Introduce pure water equipment in TCM decoction business to recycle water resources;
  - — Purchase automated decoction equipment, conduct standardized management of water consumption by using the system;
  - — Upgrade water system of the new projects to adopt advanced and efficient system;
- Raise water-saving awareness
  - — Publish the Energy Saving Proposal (《節約倡議書》) to call on all colleagues to save water;
  - — Post water-saving notices in key locations such as washing basins and toilets to raise water-saving awareness;
- Strengthen equipment repair and maintenance
  - — Regularly maintain the water supply system and water equipment to reduce the occurrence of venting, dripping and leakage;
  - — Use alcohol to clean and disinfect facilities and equipment.

Annual Key Data
• Fresh water consumption: 102,540.55 tonnes

4.3.3 Management of Material Utilisation

Gushengtang strictly abides by the *Interim Management Measures for the Recycling of Packaging Resources* (《包裝資源回收利用暫行管理辦法》) and other relevant laws and regulations in the place where it operates, and the *Chinese Pharmacopoeia* (《中國藥典》) and other industry implementation standards, formulates and implements relevant internal policies and rules and work standards. Gushengtang conducts daily management of product packaging materials and operational consumables used by the Company, carries out planning and optimization of the use of these materials to improve the recycling rate of materials and reduce unnecessary material waste.

- **Packaging materials:** We give priority to using recyclable and environmentally friendly materials to produce packaging materials such as product packaging and shopping bags, and gradually reduce the use of packaging materials through two key tasks: innovative technology research and development and packaging recycling.

- **Operational consumables:** We firmly implement the Company's management regulations of warehouse consumables, and conduct standardized management of the acceptance for the receipt of consumables and daily warehouse operations through the deployment of ERP management systems. With the help of the ERP system, we conduct centralized acceptance and storage of consumables and accurately put them on the shelves in batches, and conduct systematic management of the utilisation of consumables in each unit, such as reasonable planning and allocation, and accurately estimate the procurement needs of consumables to assist the Company in formulating procurement plans.

4.3.4 Advocating Green Office

Gushengtang is convinced to practice green and low-carbon life by starting from itself in daily life. We actively advocate green low-carbon office, so that all employees of the Company are deeply aware of the importance of energy saving and resource saving and will strive to build a green office atmosphere.

We have made a lot of efforts to implement green office:

- Encourage the use of digital office tools such as teleconferences and ERP paperless systems;

- Encourage the use of energy-saving lighting tools such as LED lights;

- Require air conditioning to be cooled at no less than 26 degrees Celsius in summer;

- Encourage double-sided printing and photocopying, encourage the use of meeting materials in electronic form to reduce paper consumption;

- Require employees to turn off lights when leaving workstations and stores;

- Encourage employees to commute by public transportation and practice green low-carbon travel;

- Encourage online work communication, reduction of official travel and reduction of the use of official vehicles.

5 IMPLEMENTING THE PEOPLE-ORIENTED CONCEPT TO ACHIEVE A HAPPY WORKPLACE

Talent is the core capital for the sustainable development of the enterprise. Gushengtang always regards employees as the key force of the Company's development, and treats each employee as the driving force of the Company's development. The Company strives to create a fair, open, healthy and safe working environment for employees, effectively protects the legitimate rights and interests of employees, pays attention to the career development and growth of employees, and organizes diversified employee care activities to help achieve a happy workplace.

5.1 Diversified and Equal Employment

In strict compliance with the *Labor Law of the People's Republic of China*, the *Labor Contract Law of the People's Republic of China*, the *Employment Promotion Law of the People's Republic of China*, the *Law of the People's Republic of China on the Protection of Minors* and other relevant laws and regulations, Gushengtang has formulated internal rules such as the *Recruitment and Employment Management Rules*, the *Labor Contract Management Rules*, the *Confidentiality Management Measures of Gushengtang*, the *Performance Management Incentive Rules*, and the *Employee Welfare Management Rules* to protect the legitimate rights and interests of employees in recruitment and employment, remuneration and benefits, promotion and development, working hours, health and safety, etc.

We adhere to the employment principle of " open recruitment and open selection," continuously optimize the structure of our workforce to achieve a reasonable distribution of employees by gender, age and region. The Company adheres to the employment policy of equality, encouraging a diverse and inclusive, anti-discrimination corporate culture, respects and treats employees of different genders, ages, academic qualifications, nationalities, religious belief and cultural backgrounds in a fair manner, and is committed to creating a fair and equitable, diversified and inclusive employment environment for employees.

The Company resolutely eliminates the use of child labor and forced labor during the recruitment process. In order to avoid the use of child labor, we will collect and strictly check the identification documents of candidates, and reject candidates under the legal age at the beginning of the interview, and refuse to hire employees under the legal age when they are employed. If any use of child labour is found, timely measures will be taken to cease employment and the same will be reported to competent authorities.

The Company complies with and enforces working hours that meet the requirements of relevant laws and regulations, ensures statutory holidays for employees, encourages employees to complete their work efficiently and conscientiously during working hours, does not force overtime, fully ensures employees' reasonable rest hours and pays overtime wages in accordance with relevant laws and regulations.

5.2 Democratic Communication

Gushengtang attaches great importance to communication with employees, through the establishment of a smooth and flexible employee communication system, actively exerts the initiative of employees' advice and suggestions, carefully listens to their valuable opinions and suggestions, and creates a good working atmosphere between employees and the Company.

- **Open day activities:** Gushengtang holds president and regional director open day activity every month. All departments select relevant basic level employees to participate in the activities, so that basic level employees can directly talk with the management to understand the latest plans of the Company and report actual problems in the work at the same time, building a bridge for communication between employees and management.

- **Regular communication meetings:** Gushengtang holds communication meetings with senior management quarterly, senior management, senior management and the president communicate in good faith, together to discuss the decision-making, to help achieve the Company's high-quality development.

Case: Chairman's Hard Work and Success Sharing Session

On September 2, 2022, the specialists committee of Gushengtang organized national online and offline medical colleagues, heads of various regional operating lines and heads of regions to jointly study the special training of Tu Zhiliang (涂志亮), the founder and chairman of the Group, "Looking Back on the Ten-Year History, Thinking about Long-term Development. (《憶十年曆程，思長期發展》)" In the sharing session, the chairman shared his experience from university to work and then to the establishment of the Company unreservedly to all employees. At the same time, all employees spoke enthusiastically about the sharing theme, actively expressed their personal insights to make progress and success together.

Chairman's Hard Work and Success Sharing Session

5.3 Remuneration and Benefits

Gushengtang has always regarded talents as the core of the Company's development, and is committed to providing employees with market-competitive remuneration and benefits. In order to better attract, motivate, develop and retain employees, and fully mobilize the enthusiasm and creativity of employees, the Company revised the Performance and Bonus Policy (《績效及獎金政策》) of each region and department in 2022 according to the annual strategic goals of the regions and departments, as well as the Broad Pay Table (《寬帶薪酬表》) and the Notice on the Adjustment to Subsidy Policies of Medical Line and Expatriates (《關於醫務條線補貼政策及外派人員補貼政策調整的通知》) for operation and medical lines.

At this stage, the remuneration of the Company's employees consists of three parts: total salary, bonus and subsidies. Total salary is used as the basic part and is determined by the grade level of the employee. We have bonuses to reward employees for their positive performance at work and to stimulate their vitality for their positions, ranks and KPIs. At the same time, in order to ensure that the salary level of employees is not additionally affected, we pay subsidies to employees as a supplementary form of salary to protect the rights and interests of employees.

In respect of management's remuneration, Gushengtang has established a remuneration committee which is responsible for reporting to the Board on the Group's remuneration policy and structure for Directors and senior management.

Remuneration and Welfare System of the Company

Statutory benefits	Risk protection	Health management	Home assistance	Lifestyle fun
Social insurance, housing provident fund, state-prescribed holidays, annual leave, marriage leave, maternity leave, sick leave, funeral leave, etc.	Commercial insurance, critical illness coverage and heart-warming fund, COVID-19 consultation and prescription reimbursement	Annual physical examination, and free nucleic acid testing	Low-interest rate borrowings and housing subsidies for core management and core talents	Holiday gifts and store membership card top-up, birthday benefits, departmental team building, discounts on consumption at store, transportation subsidies, meal subsidies, maternity allowances, etc.

5.4 Training and Development

Gushengtang attaches great importance to the development and training of talents, pays attention to cultivating the professional skills of employees, helps employees develop their self-worth, encourages employees to pursue excellence in their respective fields, and provides clearly defined talent development paths for employees.

5.4.1 Inheritance of Traditional Chinese Medicine

Gushengtang, as the leading enterprise of the basic-level traditional Chinese medicine chain service organization, is the deep practitioner of the national project for TCM development. In response to the "Development Plan for Traditional Chinese Medicine under the 14th Five-Year Plan" of China, the Company has set up Famous Doctor Studios, built OMO platforms, carried out cooperation between famous universities and famous colleges, and started to build a high-quality team of traditional Chinese medicine talents to inherit and protect traditional Chinese medicine.

Famous Doctor Studio "Mentorship"

Master-apprentice education (師承教育) is an important part in the cultivation of traditional Chinese medicine talents. Gushengtang actively promotes the inheritance of national traditional Chinese medicine culture, promotes the establishment of famous doctor studios in many regions, continuously explores the establishment of diversified master-apprentice education models, and promotes the establishment of studios at the grassroots level for "mentorship" by famous doctors and teachers such as National TCM Great Masters, nationally famous and experienced TCM physicians and QI Huang scholars (Renowned masters of traditional Chinese medicine with high level of skill), to respond to the national master-apprentice policy actively and cultivate TCM staff under the master-apprentice education model.

OMO Platform Experience Sharing

Using the advantages of efficient experience sharing on the OMO platform, Gushengtang has established TCM medical records, classical prescriptions, medicinal identification and other columns through the Internet hospitals and doctors, and ensured the professionalism and readability of content through the combination of pictures and texts, expert appearances and live video in terms of content form, to realize the efficient dissemination of traditional content. Our OMO platform has no geographical restrictions, allowing highly qualified experts from different regions to share clinical experience and academic achievements with young talents efficiently, accelerating the development of full-time physician teams to make great contributions to the cultivation of Chinese medicine talents.

Cooperations with Famous Universities

Gushengtang conducts strategic cooperations with national key universities of Traditional Chinese Medicine in talent training, discipline construction, scientific research projects, medical construction, etc., providing a learning platform of "learning from famous teachers, learning expertise and becoming TCM physicians" for practitioners who aspire to become TCM physicians. In cooperation with Guangzhou University of Chinese Medicine, we have established Gusheng National Medical School of Guangzhou University of Chinese Medicine (廣州中醫藥大學固生國醫學堂) to provide services for TCM master-apprentice, famous doctor follow-up and specialized follow-up, cultivated a high-quality team of young doctors to strengthen the foundation of traditional Chinese medicine services.

Cooperations with Famous Hospitals

Gushengtang cooperates with Class III Grade A Traditional Chinese Medicine Hospital to cultivate its own team of physicians with the help of high-quality medical resources and school talents of the hospitals. We have cooperated with Foshan Hospital of Traditional Chinese Medicine (佛山市中醫院) and Lingnan School of Dermatology Inheritance Studio (嶺南皮膚病流派傳承工作室), combining theory with practice, so that students can truly learn the diagnosis and treatment technology of specialized diseases in famous colleges and universities, and establish a new model for the inheritance and development of traditional Chinese medicine.

Case: Reputable Physician Inheritance Studio

On May 29, 2022, the Beijing Wangjing Branch of Gushengtang, successfully held the opening ceremony for the Reputable Physician Inheritance Studio of Professor Sha Haiwen, a famous TCM teacher in the capital. After the establishment of the Reputable Physician Inheritance Studio, the clinical and teacher-following work will be carried out to explore the talent training model in line with the characteristics of traditional Chinese medicine, which will contribute to the development of Chinese traditional medicine.

Opening Ceremony of Famous Medical TCM teacher Sha Haiwen Inheritance Studio

Annual Key Data

- As of the end of the reporting period, the Company had a team of 839 TCM professionals.
- We have cooperated with national, provincial and municipal famous TCM physicians to establish more than 30 famous TCM studios, and have more than 2,300 instructors, including most National TCM Great Masters, National Famous TCM Doctors and Provincial Famous TCM Doctors.

5.4.2 Diversified Training

Gushengtang has a complete employee training system and provides a wide range of internal and external training courses for all employees. The Company has formulated and followed the Training Management Rules of Gushengtang to develop and launch annual and quarterly training programs for employees of different levels and positions, and further strengthen the development skills of employees through diversified training programs.

Multi-level employee empowerment

The Company focuses on the development of employees' abilities and provides multi-level and targeted training programs for their positions. We have induction and on-the-job training, online learning courses, general skills training, external training for core executives, and middle and senior management training programs, which aim to combine personal growth and career development of employees and provide a platform for all employees to learn and improve.

- **New employees:** The Company has formulated courseware such as Gushengtang Orientation Strategy (《固生堂入職攻略》), Little Gu Navigator Instrument (《小固導航儀》), A New Star of the Rise of Grassroots Traditional Chinese Medicine (《固生堂, 基層中醫崛起的新星》), so that new employees can quickly get on-board.

- **Core medical personnel:** We have established the medical (sales) committee to carry out core medical personnel training camp project, build the medical training system, sort out and refine the practical experience of the medical line. With the joint efforts of core personnel, we will jointly promote business innovation and progress in key tasks.

- **Employees of the store operation line:** We adhered to the business philosophy of focusing on experts and customers, and established an operation committee to continuously empower employee training of stores.

- **Core executives:** We have provided an EMBA program.

Case: Exchange of Operations Management Experience of the Branch

In the afternoon of June 24, 2022, Gushengtang launched a branch operation and management experience exchange meeting to learn together the topic of "How to do a good job in branch operation with a boss mentality" (《如何用老闆心態做好分院運營》) shared by the founder and Chairman of the Group, Mr. Tu Zhiliang. The sharing emphasized the Company's core development strategy — the 2022 City and Store Expansion Plan (拓城拓店計劃). The directors and supervisors of each branch hospital presented their personal insights and experiences on the sharing topic, which provided a good opportunity for learning and exchange for the Company's important talent reserve for future development.

Branch Operation Sharing Meeting

Professional skills training

As a TCM enterprise, Gushengtang attaches great importance to the practical skills of its employees, and develops training courses for different professional skills according to different business needs, so as to further strengthen and enhance the business skills of employees in each department through training.

The Company regularly carried out online and offline training on skills of multiple business functions such as pharmacy, charging, nursing and medical assistance to improve the business level of employees, and developed more than 20 training courses such as *Pharmacy Dispensations, Drug Issuing in Pharmacies, Acupuncture Point Plastering, Traditional Chinese Medicine Debate and TCM Foundation* to provide a solid theoretical basis for the career development of employees.

In addition, we regularly organize skill competitions for our employees. For the year, we have successively carried out skill competitions in Shanghai for three lines of medical, nursing and pharmacy to drive skill training through the apprenticeship system. Through these competitions, we continue to strengthen the basic skills and application of “product introduction” of the medical team, improve the professional standard of the pharmacy team, improve the treatment standard of the nursing team, and increase the horizontal communication among the teams. The competition format allows staff to participate and receive awards, which not only tests their professional abilities, but also motivates them to learn.

Employee Skills Competition

Case: Various Training Programs for New Employee

Gushengtang has launched various training programs such as nurse first aid training, pharmacy dispensing and dispensing etiquette to help new employees quickly master their job skills, provide better nursing support for doctors’ treatment, and bring better service experience to customers. In 2022, we carried out management training on the validity period of drugs in Fuzhou Branch to clarify the short-term period of drugs, emphasize the importance of drug validity period, and enhance the drug management capabilities of employees.

New Employee Post Skills Training

5.4.3 Fair Promotion

Gushengtang is a platform for rapid development, but also a platform for employees to be trusted and strive for. With the rapid development of business and the urgent demand for talents, the Company provides employees with a broad development platform and is committed to building a fair, just and open promotion system.

In 2022, the Company formulated the Management Measures for the Promotion of Employees' Ranks, the Management Measures for the Promotion of Medical Ranks in Gushengtang and the Management Measures for the Promotion of Nursing and Pharmacy Management Ranks and Professional Grades in Gushengtang (Trial) to continuously improve the staff promotion mechanism and create a clear and smooth promotion path for employees. During the year, we held an annual employee evaluation activity to recognize outstanding teams and individuals. In addition, the Company's operations and medical lines conduct internal promotion appraisals twice a year in March and September. Through multiple appraisal criteria, the Company approves the promotion direction of our employees and explores potential talents and reserves talents.

Case: Training Conference on Talent Strategy for Senior Management

On June 16, 2022, in order to actively promote the implementation of the Group's major strategy on the establishment of talent stratum, Gushengtang held a training meeting on Talent Strategy for senior management at its headquarters in Guangzhou. A total of 33 people, including the Chairman, vice president and regional manager of the Group, participated in the training meeting offline. Professor Wang Cheng (王成), a well-known domestic talent strategy expert, was specially invited by Gushengtang to provide professional sharing and guidance according to the business model and personnel training of Gushengtang, focusing on how to identify talents, cultivate talents and introduce talents, providing guidance ideas for the establishment of talent stratum of Gushengtang.

Talent Strategy Sharing

5.5 Occupational Health and Safety

Gushengtang attaches great importance to the occupational health and safety of employees, and is committed to creating a comfortable, healthy and safe work environment. We strictly abide by the *Law of the People's Republic of China on the Prevention and Control of Occupational Diseases* and has formulated the *Quality, Environment and Occupational Health and Safety Management Manual*, which stipulates the monitoring and management of operation control, environment, safety objectives and performance, and compliance with laws and regulations related to occupational health and safety, and regulates the operation and activities related to occupational health risks, so as to continue to create a healthy and safe work environment for employees and protect the occupational health and safety of employees.

In order to protect the health of employees, Gushengtang provides regular medical checkup packages for employees every year and applies for year-end medical checkup cards to protect the health of employees. In case of production safety incidents, we will act on the safety protection treatment plan as soon as possible, including timely medical treatment, understanding the accident situation, applying for work-related injury or commercial insurance assistance, and will follow up to and focus on improving internal management mechanism.

Case: First Aid Drill Training

On December 16, 2022, Gushengtang invited a senior nurse in charge of the emergency department of Guangdong Hospital of Integrated Traditional Chinese and West Medicine to Nanhai Branch (南海分院) to conduct training on CPR and the use of simple AED. Using the teaching dummy model, the in-charge nurse gave a major demonstration for chest compression, open airway, artificial respiration, and AED use, guided everyone to experience it in person, and helped employees to intuitively and quickly master the first aid operation steps through a combination of theory and practice, which enhanced the actual first aid ability.

First Aid Drill

5.6 Heartwarming Care

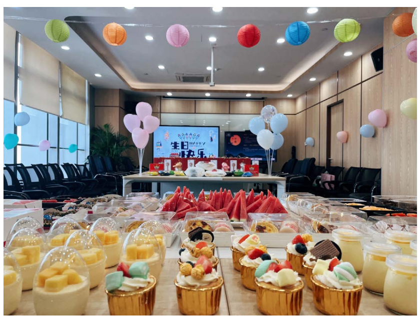
Adhering to the concept of "people-oriented", Gushengtang fully considers the basic needs of the balance between employees' work and life, provides employees with rich and diverse care activities, and creates a harmonious working atmosphere.

Poverty Alleviation

We have established the Gushengtang Employee Warmth Fund to provide one-off assistance and interest-free loans to employees and their family members who suffer from serious illnesses, accidental disability or accidents, resulting in significant family property loss and unable to bear expenses, effectively helping employees in difficulties, effectively caring for employees and enhancing corporate cohesion.

Cultural and Sports Activities

We provide rich and diverse caring activities for employees, gifts and presents for important traditional festivals, birthday benefits, group travel activities, etc., to enhance employees' happiness and sense of belonging to the Company.

Birthday Party for Employees		
Mid-Autumn Festival Activities		

Women's Day Activities	
Group Building Activities	

6 WORKING TOGETHER TO ACHIEVE A HARMONIOUS SOCIETY

While continuously strengthening the supply chain management and joining hands with the industry chain for win-win development, Gushengtang actively engages in charity and integrates the spirit of public welfare into its corporate culture. With its own expertise, resources and capabilities, it continues to carry out social welfare activities and contribute to social development.

6.1 Supply Chain Management

Gushengtang insists on creating a transparent, harmonious and green supply chain and strictly follows the *Food Safety Law of the People's Republic of China*, the *Regulations on the Supervision and Administration of Medical Devices*, the *GSP Field Inspection Guidelines* (《GSP現場檢查指導原則》) and other relevant laws and regulations. Gushengtang's suppliers mainly include suppliers of decocting pieces, suppliers of Chinese and Western proprietary drugs, and suppliers of non-pharmaceutical consumables and equipment. In order to ensure the quality and stability of the supply chain, Gushengtang has established the *Internal Control Rules of the Supply Chain*, the *Supplier Access Rules*, the *Purchase Order Management Rules*, the *Drug Harvest and Acceptance Management Rules*, the *Supplier Management Rules*, etc. The rules cover the access of suppliers, assessment, follow-up of the whole chain of order review, supplier evaluation, withdrawal mechanism and acceptance, etc.

As of the end of the reporting period, Gushengtang had cooperated with a total of 214 suppliers, with the following geographical distribution:

Region	Number of suppliers/units
Southern China	88
Eastern China	76
Northern China	25
Central China	11
Northeast China	6
Southwest China	6
Northwest China	2
Hong Kong, Macau and Taiwan	0
Overseas	0

6.1.1 Access and Performance Management

Decoction pieces are an important part of the production and operation of Gushengtang. When selecting suppliers of decoction pieces, we will inspect and evaluate the qualifications, penalties, enterprise strength, industry behavior, and financial status of suppliers through complete bidding procedures. The Company's supplier management process mainly includes the access stage and the performance stage.

- **Access stage:** The Company evaluates suppliers' performance in terms of quality, safe production, whether they have passed environmental assessment and acceptance, whether there are environmental risks, whether the emissions meet the standards, etc., based on the Supplier on-site Inspection Checklist. We carry out on-site fight inspections, and resolutely refuse the suppliers whose environmental requirements do not meet the standards, so as to reduce supply chain risks from the source.

- **Performance stage:** We conduct annual assessment of suppliers according to the Qualified Supplier Annual Evaluation Form in terms of qualification, quality of supply, safety production, environmental performance, etc. We also conduct flight inspections from time to time to monitor suppliers' performance in real time.

6.1.2 Environmental and Social Risk Management

Gushengtang strives to build a clean supply chain and signs anti-corruption management regulations with suppliers at the same time when signing contracts to achieve the purpose of mutual restraint. In order to reduce the risk of the supply chain, the Company conducts due diligence on them to identify possible corruption risks and deal with them in a timely manner, so as to create an honest and transparent business cooperation atmosphere together.

For cooperative suppliers of decoction pieces, we require them to sign the Integrity Agreement and the standard group procurement contract formulated by our judicial department. We have signed the Integrity Agreement with all suppliers of decoction pieces, and have also signed the corresponding Drug Purchase Agreement and Quality Assurance Agreement with each of suppliers of decoction pieces.

With reference to the relevant management regulations of *GMP (Good Manufacturing Practice of Medical Products)* and the requirements for suppliers in bidding and contracts, we conduct irregular flight inspections of suppliers' product quality and services to determine whether there are risks associated with compliance in the supply process, and put forward rectification requirements and reassessment for suppliers who do not meet the requirements. We will stop cooperating with suppliers who fail to meet the requirements with serious cases. In 2022, we conducted on-site inspections of eight suppliers, all of which met the requirements.

The Company has formulated the *Notice on Using Environmental Protection Plastic Bags* (《關於使用環保塑料袋的通知》), requiring suppliers to provide degradable plastic bags, continuously optimizing material procurement requirements, encouraging the procurement of green products, and creating a green and sustainable supply chain.

6.1.3 Industrial Chain Win-Win

Gushengtang combines poverty alleviation with the win-win situation of the TCM planting industry chain. On the one hand, it provides financial support to the downstream industry chain, including farmers and distributors, so that they can continuously iterate technology to improve product quality and ensure the sustainable development of high-standard growers. On the other hand, it guides TCM cultivation based on front-end big data analysis, optimizes cultivation varieties, avoids price risks for the downstream supply chain, protects the profits of farmers and the supply chain, and helps improve efficiency for poverty alleviation.

Case: Cooperation with Pan'an County to Promote the Development of Traditional Chinese Medicine Industry

On November 11, 2022, Gushengtang established the Zhejiang Provincial Common Prosperity TCM Industry Investment Fund (浙江省共同富裕中醫藥產業投資基金) and held a signing ceremony with the People's Government of Pan'an County, of Zhejiang at the opening ceremony of the Zhejiang TCM Exposition and the 15th Pan'an TCM Exposition. Gushengtang's participation in the establishment of the fund will help achieve common prosperity, implement the rural revitalization strategy, promote the culture of TCM and promote the development of the TCM industry in Zhejiang Province.

Signing Ceremony Site

6.2 TCM Inheritance

In response to the national strategy to vigorously inherit and develop TCM cause and industry, Gushengtang is committed to supporting the development of TCM education and contributing to the prosperity of TCM culture by establishing the special fund for TCM inheritance with the help from the Medical Institution Alliances participants including TCM universities, Grade A Class III hospitals and other units, organizing forums on high-quality TCM development and TCM academic seminars, setting up Gushengtang Chinese Medicine Schools, and providing an exercising platform for the majority of pharmacy major students.

In conjunction with the China Red Cross Foundation, Gushengtang has set up the "Gushengtang Fund for TCM Benefitting the People", which was designed to carry out medical services such as TCM voluntary clinics and health check-ups, and further promoting the penetration of quality medical resources into the grassroots. In line with the prevailing trend of rural revitalization, we will gradually improve the level of TCM medical treatment at the grassroots level by carrying out training and TCM technology upgrading for countryside and township physicians and funding the establishment of community health service centers and rural health care centers, so as to effectively alleviate the current uneven distribution of medical resources.

Case: Donation to Henan University of Traditional Chinese Medicine Foundation

In June 2022, Gushengtang donated RMB2.5 million to Henan University of Traditional Chinese Medicine Education Development Foundation for talent training and Medical Institution Alliances building. Gushengtang and Henan University of Traditional Chinese Medicine have carried out an in-depth cooperation in promoting research and transformation of achievements in the field of TCM modernization, talent training and resource sharing between the two sides. On the basis of the cooperation between the University and Gushengtang, the First Affiliated Hospital and Gushengtang have cooperated to set up a TCM outpatient department to jointly promote the development of TCM cause.

Case: The First Seminar on High-quality Development of Chinese Medical Centers

In September 2022, in order to thoroughly implement the requirements of "vigorously developing TCM clinics, outpatient clinics and specialty hospitals and encouraging chain operations (大力發展中醫診所, 門診部和特色專科醫院，鼓勵連鎖經營)" as stated in the "Opinions of the CPC Central Committee and the State Council on Promoting the Inheritance, Innovation and Development of Traditional Chinese Medicine (《中共中央國務院關於促進中醫藥傳承創新發展的意見》)", Gushengtang held the first seminar on high-quality development of Chinese medical centers together with China Association of Chinese Medicine. The seminar carried out an in-depth discussion of the management mode and operation mechanism of Chinese medical centers, aiming to promote the high-quality development of Chinese medical centers, meet the medical needs of the public, and inherit and develop the TCM business.

The First Seminar on High-quality Development of Chinese Medical Centers

Case: Academic Seminar on Wenzhou TCM

In October 2022, the starting ceremony of the Gushengtang Wenzhou Regional TCM Experts Providing the Grassroots Service Event and Wenzhou TCM seminar was held, which invited national medical experts to make academic sharing. Gushengtang and Wenzhou Hospital of Traditional Chinese Medicine established a strategic cooperation to carry out the joint construction of innovative medical institution alliances, and both sides set up an expert committee to foster a good atmosphere of TCM exchange, studies, scientific research and talent cultivation, and make joint efforts to allocate resources, offer pieces of good advice and benefit the public for the high-quality inheritance and development of TCM in Wenzhou, and jointly explore the innovative development path of TCM.

The Unveiling Ceremony of Gushengtang Medical Institution Alliances of Wenzhou TCM Hospital Group

6.3 Public Welfare Charity

Focusing on social welfare, Gushengtang actively participated in various social welfare activities through fighting pandemic, donation to schools and other diversified activities, using its own resources and advantages to assume social responsibility and promote social love.

Annual Key Data
• The amount of investment in public welfare and charity is RMB2,522,960.

Fighting Against the Pandemic

Gushengtang actively implemented the national pandemic prevention and control policy, responded to the requirement of the health committee of the city where it operates, participated in nucleic acid tests and donation of pandemic prevention articles, and meanwhile devoted to improving its capability of applying TCM drugs to the prevention and treatment of new and unexpected epidemics and emergency treatment of public health events, and guided the public in the use of TCM for the prevention and treatment of infectious diseases such as COVID-19 pandemic.

Case: Livestream to Share the Knowledge of COVID-19 Prevention and Treatment

On December 10, 2022, Gushengtang launched a live stream event themed by "Chinese medicine experts' storytelling: somethings about the COVID-19 treatment" to popularize the basic knowledge about COVID-19 pandemic and provide detailed guidance on key topics of public concern, such as prevention of infection, medical consultation and the efficacy of TCM.

Livestream Activity Popularizing COVID-19 Treatment Held by Gushengtang

Case: Rush to Helping Nucleic Acid Sampling for Different Regions

In April 2022, when the pandemic spread in Shanghai was severe, Gushengtang set up an anti-pandemic treatment team and prepared 350,000 anti-pandemic prescriptions to support the pandemic fighting work in Shanghai. By the end of the support mission, the medical staff have completed more than 120,000 nucleic acid tests in total.

From March to June 2022, 42 Gushengtang stores located in 11 cities nationwide dispatched medical personnel to assist in nucleic acid testing, with a total of 1,016 medical personnel dispatched and a total of 917,000 nucleic acid samplings completed.

In November 2022, Gushengtang organized 20 medical and nursing staff from 6 Guangzhou branches to set up a medical treatment team to support the front-line pandemic prevention and control work in Haizhu District, Guangzhou.

Gushengtang aid for pandemic-fighting

Support to Education Cause

Over the years, Gushengtang has been enthusiastically donating to schools, holding charity donations to Gantang Town Central Primary School (甘棠鎮中心小學), Kaijiang County Jiangzhi Middle School (開江縣講治中學) and Kaijiang Middle School (開江中學), setting up scholarships, providing educational opportunities for juveniles and contributing to the building of a strong country in education and talents.

Annual Key Performance

- As of December 2022, Gantang Town Central Primary School of Kaijiang County, received and fully released a total of RMB150,000 (RMB30,000 per year) from Mr. Tu Zhiliang's donation in consecutive 5 times to the Bajiaoting Village Primary School in Gantang Town, benefiting more than 100 occasions for students in need.

- Since 2017, using the "Tu Zhiliang Love Scholarship (涂志亮愛心助學)" (RMB40,000 per year), Kaijiang County Jiangzhi Middle School benefited 40 occasions for students in need who graduated from its junior middle school.

- The "Tu Zhiliang Scholarship (涂志亮獎學金)" provided Kaijiang Middle School with RMB40,000 per year, benefiting 124 students in total from Kaijiang Middle School in recent three years.

7 OVERVIEW OF SUSTAINABLE DEVELOPMENT

7.1 List of Policies

ESG Indicators	Compliance with Relevant Laws and Regulations	Some Internal Policies
A. Environmental	Environmental Protection Law of the People's Republic of China Water Law of the People's Republic of China Water Pollution Prevention and Control Law of the People's Republic of China Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste Energy Conservation Law of the People's Republic of China Regulations on the Administration of Medical Waste Discharge Limits of Water Pollutants (DB44/26-2001) Discharge Standard of Water Pollutants for Traditional Chinese Medicine Pharmaceutical Industry (GB 21906-2008) Interim Management Measures for the Recycling of Packaging Resources Chinese Pharmacopoeia of the PRC	Gushengtang Group ESG Management Rules Energy Saving Proposal Notice on Using Environmental Protection Plastic Bags

ESG Indicators	Compliance with Relevant Laws and Regulations	Some Internal Policies
B1. Employment	Labor Law of the People's Republic of China Labor Contract Law of the People's Republic of China Employment Promotion Law of the People's Republic of China Law of the People's Republic of China on the Protection of Minors	Recruitment and Employment Management Rules Labor Contract Management Rules Confidentiality Management Measures of Gushengtang Performance Management Incentive Rules Employee Welfare Management Rules Gushengtang Business Integrity Management Rules Management Measures for the Promotion of Medical Ranks in Gushengtang Management Measures for the Promotion of Nursing and Pharmacy Management Ranks and Professional Grades in Gushengtang (Trial) Notice on the Adjustment to Subsidy Policies of Medical Line and Expatriates
B2. Health and Safety	Law of the People's Republic of China on the Prevention and Control of Occupational Diseases Production Safety Law of the People's Republic of China Fire Protection Law of the People's Republic of China Regulation on Work-Related Injury Insurance	Quality, Environment and Occupational Health and Safety Management Manual
B3. Development and Training	\	Training Management Rules of Gushengtang Management Measures for the Promotion of Employees' Ranks Performance and Bonus Policy Performance Management Incentive Rules Broad Pay Table Employee Subsidy Management Rules

ESG Indicators	Compliance with Relevant Laws and Regulations	Some Internal Policies
B4. Labour Standards	Labor Law of the People's Republic of China Labor Contract Law of the People's Republic of China Employment Promotion Law of the People's Republic of China Law of the People's Republic of China on the Protection of Minors Provisions on the Prohibition of Using Child Labour	Recruitment and Employment Management Rules Labor Contract Management Rules Confidentiality Management Measures of Gushengtang Performance Management Incentive Rules Employee Welfare Management Rules Gushengtang Business Integrity Management Rules
B5. Supply Chain Management	Bidding Law of the People's Republic of China Civil Code of the People's Republic of China Food Safety Law of the People's Republic of China Regulations on the Supervision and Administration of Medical Devices GSP Field Inspection Guidelines Good Manufacturing Practice of Medical Product	Supplier Access Rules Internal Control Rules of Supply Center Purchase Order Management Rules Drug Receipt and Acceptance Management Rules Internal Control Rules of the Supply Chain Supplier Management Rules

ESG Indicators	Compliance with Relevant Laws and Regulations	Some Internal Policies
B6. Product Responsibility	Drug Administration Law of the People's Republic of China Pharmacopoeia of the People's Republic of China Good Supply Practice for Pharmaceutical Products Regulations on the Supervision and Administration of Medical Devices Product Quality Law of the People's Republic of China Advertisement Law of the People's Republic of China Law of the People's Republic of China on the Protection of Consumer Rights and Interests Data Security Law of the People's Republic of China Personal Information Protection Law of the People's Republic of China Trademark Law of the People's Republic of China Patent Law of the People's Republic of China Anti-Unfair Competition Law of the People's Republic of China Civil Code of the People's Republic of China Trade Marks Ordinance of Hong Kong	Quality Standards Quality Information Management Rules Drug Purchase Management Rules Drug Receipt and Acceptance Management Rules Management Rules for Drug Custody, Maintenance and Ex-warehouse Review Drug Transportation Management Rules Management Rules for Compound Preparations with Special Drugs Management Rules for Near-expiry Drugs Adverse Drug Reaction Reporting Management Rules Quality Control System for Pharmaceutical Operation Risks Drug Recall Management Rules Drug Recall Operation Procedures Customer Service Manual Customer Complains Handling Process System Data Security Management Rules User Data Protection Management Rules Cyber Security Management Rules Cyber Information Security Complaint and Reporting Rules Gushengtang Group Data Classification and Confidentiality Management Rules Management Rules for Employee Identity and Access Cyber and Information Security Emergency Plan Management Measures for the Protection of Trade Secrets of Gushengtang Group Management Measures for Intellectual Property Rights of Gushengtang Group Quality Risk Management Rules Internal Review Rules of Quality Management System Drugs Procurement and Quality Assessment Management Rules Quality Complaint, Quality Accident Management Rules

ESG Indicators	Compliance with Relevant Laws and Regulations	Some Internal Policies
B7. Anti-corruption	Company Law of the People's Republic of China Anti-Unfair Competition Law of the People's Republic of China Anti-money Laundering Law of the People's Republic of China Bidding Law of the People's Republic of China Foreign Corrupt Practices Act	Measures for Commercial Integrity Management of Gushengtang Group Anti-corruption Management Regulations Anti-fraud and Reporting Rules
B8. Community Investment	Charity Law of the People's Republic of China	Cash Management Regulations

7.2 ESG Key Performance List

ESG Indicators	Unit	2022 Data
A Environmental		
A1 Emissions		
A1.1 The types of emissions and respective emissions data		
NO_x emissions[1]	kg	225.50
SO_x emissions[1]	kg	0.58
Particulate matter emissions[1]	kg	20.66
Chemical oxygen demand CODcr emissions[2]	Tonne	1.16
Suspended solids SS emissions[2]	Tonne	2.43

1 Emission of Nitrogen oxides NO_x, sulfur oxides SO_x and granulated materials were mainly from the air pollutants from the utilisation of Gushengtang vehicles, calculated with reference to the Hong Kong Stock Exchange document "Appendix II: Guidance on Reporting of Environmental Key Performance Indicators"

2 Chemical oxygen demand CODcr and suspended solids SS were mainly from wastewater discharged during the operation of Gushengtang stores

ESG Indicators	Unit	2022 Data
A1.2 Greenhouse gas emissions and intensity		
Direct GHG emissions (Scope 1)[3]	CO_2e (tonnes)	90.22
Direct GHG emissions intensity (Scope 1)	CO_2e/million revenue (RMB)	0.056
Indirect GHG emission (Scope 2)[4]	CO_2e (tonnes)	5,733.83
Indirect GHG emissions intensity (Scope 2)	CO_2e/million revenue (RMB)	3.53
Total GHG emissions	CO_2e (tonnes)	5,824.05
A1.3 Total hazardous waste produced and intensity		
Waste lamp tubes	Tonnes	0.001
Waste printer toner cartridges	Tonnes	0.77
Waste printer ink cartridges	Tonnes	0.11
Waste battery	Tonnes	0.03
Medical waste	Tonnes	19.68
Total hazardous waste	Tonnes	20.59
Hazardous waste intensity	Tonnes/million revenue (RMB)	0.013

3 Scope 1 GHGs are mainly derived from direct GHG emissions from company operations (e.g. fuel consumption for business vehicles) and are calculated using the formula: CO_2 equivalent emissions from fossil fuel combustion = fuel consumed x fossil fuel carbon content x rate of carbon oxidation of the fuel x 44/12.

4 Scope 2 GHG emission is mainly from indirect greenhouse gas emissions generated by purchased electricity consumed in the Company's operations, calculated with reference to the Hong Kong Stock Exchange document "Appendix II: Guidance on Reporting of Environmental Key Performance Indicators", among which the power emission factor is 0.5703 tCO_2/MWh in the "Accounting Methods and Reporting Guidelines for Greenhouse Gas Emissions of Enterprises-Power Generation Facilities" (Environmental Office Climate [2022] No. 111)

ESG Indicators	Unit	2022 Data
A1.4 Total non-hazardous waste produced and intensity		
General industrial solid waste	Tonnes	1,250.57
Office and domestic waste	Tonnes	72.01
Total non-hazardous waste	Tonnes	1,322.58
Non-hazardous waste intensity	Tonnes/million revenue (RMB)	0.81
A2 Use of Resources		
A2.1 Direct and indirect energy consumption by type and intensity		
Gasoline consumption	Litre	39,696.07
Purchased electricity	kWh	10,054,066.53
Direct energy consumption	kWh	384,709.17
Indirect energy consumption	kWh	10,054,066.53
Comprehensive energy consumption	kWh	10,438,775.71
Comprehensive energy consumption intensity	kWh/million revenue (RMB)	6,425.60
A2.2 Water consumption in total and intensity		
Fresh water consumption	Tonnes	102,540.55
Intensity of fresh water consumption	Tonnes/million revenue (RMB)	64.12
A2.5 Total packaging material used for finished products		
Consumption of paper shopping bags	Tonnes	87.36
Other packaging materials	Tonnes	4.70
Total packaging material used	Tonnes	92.06
Density of packaging material used	Tonnes/million revenue (RMB)	0.057

ESG Indicators		Unit	2022 Data
B Social			
B1 Employment			
B1.1 Total workforce by gender, employment type, age group and geographical region			
Total number of employees		person	1,907
By gender	**Number of male employees**	person	660
	Number of female employees	person	1,247
By employment type	**Number of full-time employees**	person	1,907
	Number of interns	person	73
By age	**Number of employees aged 18–29**	person	979
	Number of employees aged 30–49	person	852
	Number of employees aged 50 and above	person	76
By geographical region	**Number of employees in Mainland China**	person	1,902
	Number of employees outside Mainland China	person	5

ESG Indicators		Unit	2022 Data
B1.2 Employee turnover rate by gender, age group and geographical region			
Total employee turnover rate		%	32.50
By gender	**Male employee turnover rate**	%	33.30
	Female employee turnover rate	%	33.90
By age	**Turnover rate of employees aged 18–29**	%	35.70
	Turnover rate of employees aged 30–49	%	29.50
	Turnover rate of employees aged 50 and above	%	22.00
By region	**Turnover rate of employees in Mainland China**	%	36.20
	Turnover rate of employees outside Mainland China	%	40.00
B2 Health and Safety			
B2.1 Number and rate of work-related fatalities occurred in the past three years			
Number of work-related fatalities		person	(2020–2022) 0
Rate of work-related fatalities		%	(2020–2022) 0
B2.2 Lost days due to work injury			
Lost days due to work injury		days	253
Number of work-related injuries		times	2

ESG Indicators		Unit	2022 Data
B3 Development and training[5]			
B3.1 The percentage of employees trained by gender and employee category			
Total number of employees trained		person	2,812
Percentage of employees trained in total		%	100%
By gender	**Percentage of male employees trained**	%	30.69
	Percentage of female employees trained	%	69.31
By employee category	**Percentage of senior management trained**	%	3.10
	Percentage of middle management trained	%	9.10
	Percentage of junior employees trained	%	87.80
B3.2 The average training hours completed per employee by gender and employee category			
Average training hours of employees		hours	9.54
By gender	**Average training hours of male employees**	hours	11.9
	Average training hours of female employees	hours	8.29
By employee category	**Average training hours of senior management**	hours	78.47
	Average training hours of middle management	hours	20.43
	Average training hours of junior employees	hours	6.78

5 B3 Training-related data in aggregate for the whole year 2022

ESG Indicators		Unit	2022 Data
B5 Supply Chain Management			
B5.1 Number of suppliers by geographical region			
Total number of suppliers		pcs	214
By region	**Number of suppliers in Southern China**	pcs	88
	Number of suppliers in Eastern China	pcs	76
	Number of suppliers in Northern China	pcs	25
	Number of suppliers in Central China	pcs	11
	Number of suppliers in Northeast China	pcs	6
	Number of suppliers in Southwest China	pcs	6
	Number of local suppliers in Northwest China	pcs	2
B6 Product Responsibility			
B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons			
Number of products subject to recalls for safety and health reasons		pieces	0[6]
Percentage of total products sold/shipped		%	0
B6.2 Number of products and services related complaints received			
Total number of complaints received		times	21
Among them, medical service complaints		times	2

[6] During the year, there were some recalls by manufacturers, but the recalled products did not enter the market and did not cause health and safety effects, as detailed in the "Product Quality Management" sub-section of this report.

ESG Indicators	Unit	2022 Data
B7 Anti-corruption		
B7.1 Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.		
Number of concluded legal cases regarding corrupt practices brought	pieces	0
B7.3 Description of anti-corruption training provided to directors and employees		
Number of Directors participating in anti-corruption training	person	9
Total hours of anti-corruption training provided to directors	hours	9
Number of employees participating in anti-corruption training	person	1,856
Total hours of anti-corruption training provided to employees	hours	1,856
B8 Community Investment		
B8.2 Resources contributed to the focus area		
Total investment in charitable donations	Yuan (RMB)	2,522,960
Investment in education	Yuan (RMB)	1,634,000
Investment in medical services	Yuan (RMB)	145,460

7.3 ESG Reporting Guide Content Index

Indicators	Details	Related sections in this ESG Report	Note
A. Environmental			
Aspect A1: Emissions			
General Disclosure		4 Green Development to Achieving A Low-Carbon Future 7.1 List of Policies 7.2 ESG Key Performance List	During the reporting period, the Company did not have any environmental pollution incidents or environmental administrative punishment
A1.1	The types of emissions and respective emissions data	4.2 Emission Management 7.2 ESG Key Performance List	
A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	7.2 ESG Key Performance List	
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	4.2 Emission Management 7.2 ESG Key Performance List	
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	4.2 Emission Management 7.2 ESG Key Performance List	
A1.5	Description of emissions target(s) set and steps taken to achieve them	4.2 Emission Management	

Indicators	Details	Related sections in this ESG Report	Note
A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them	4.2 Emission Management	
Aspect A2: Use of Resources			
General Disclosure		4.3 Resources Management 7.1 List of Policies 7.2 ESG Key Performance List	
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility)	7.2 ESG Key Performance List	
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility)	7.2 ESG Key Performance List	
A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them	4.3 Resources Management	
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them	4.3 Resources Management	During the reporting period, the Company has no problem in obtaining applicable water sources
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	4.3 Resources Management 7.2 ESG Key Performance List	

Indicators	Details	Related sections in this ESG Report	Note
Aspect A3: The Environment and Natural Resources			
General Disclosure		4 Green Development, Achieving A Low-Carbon Future	
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	4.2 Emission Management 4.3 Resources Management	
Aspect A4: Climate Change			
General Disclosure		4.1 Response to Climate Change	
A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them	4.1 Response to Climate Change	
B. Social			
Aspect B1: Employment			
General Disclosure		5 Implementing the People-oriented Concept to Achieve a Happy Workplace 7.1 List of Policies 7.2 ESG Key Performance List	
B1.1	Total number of employees by gender, employment type (for example, full-or part-time), age group and geographical region	7.2 ESG Key Performance List	
B1.2	Employee turnover rate by gender, age group and geographical region	7.2 ESG Key Performance List	

Indicators	Details	Related sections in this ESG Report	Note
Aspect B2: Health and Safety			
General Disclosure		5.5 Occupational Health and Safety 7.1 List of Policies	
B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year	7.2 ESG Key Performance List	
B2.2	Lost days due to work injury	7.2 ESG Key Performance List	
B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored	5.5 Occupational Health and Safety	
Aspect B3: Development and Training			
General Disclosure		5.4 Training and Development	
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management)	7.2 ESG Key Performance List	
B3.2	The average training hours completed per employee by gender and employee category	7.2 ESG Key Performance List	

Indicators	Details	Related sections in this ESG Report	Note
Aspect B4: Labour Standards			
General Disclosure		5.1 Diversified and Equal Employment 7.1 List of Policies	During the reporting period, the Company has complied with relevant laws and regulations relating to preventing child and forced labour that have significant impact on the Company
B4.1	Description of measures to review employment practices to avoid child and forced labour	5.1 Diversified and Equal Employment	
B4.2	Description of steps taken to eliminate such practices when discovered	5.1 Diversified and Equal Employment	
Aspect B5: Supply Chain Management			
General Disclosure		6.1 Supply Chain Management	
B5.1	Number of suppliers by geographical region	6.1 Supply Chain Management 7.2 ESG Key Performance List	
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored	6.1 Supply Chain Management	
B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored	6.1 Supply Chain Management	

Indicators	Details	Related sections in this ESG Report	Note
B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored	6.1 Supply Chain Management	
Aspect B6: Product Responsibility			
General Disclosure		3 Quality Services to Achieve Excellent Experience 7.1 List of Policies	
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	3.2 Strict Quality Control, Medicine with Confidence 7.2 ESG Key Performance List	During the reporting period, there was no recall of the Company's products due to safety and health reasons
B6.2	Number of products and services related complaints received and how they are dealt with	3.1 Reassuring Service, Health Care with Conscience 7.2 ESG Key Performance List	
B6.3	Description of practices relating to observing and protecting intellectual property rights	3.2.4 Intellectual Property Protection	During the reporting period, the Company strictly complied with laws and regulations relating to intellectual property protection
B6.4	Description of quality assurance process and recall procedures	3.2.2 Product Quality Management	
B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored	3.1.3 Customer Information and Privacy Protection	During the reporting period, the Company strictly complied with the laws and regulations relating to consumer privacy protection

Indicators	Details	Related sections in this ESG Report	Note
Aspect B7: Anti-corruption			
General Disclosure		3.1.4 Adhering to Business Ethics 7.1 List of Policies	During the reporting period, the Company did not involve in any litigation regarding corruption, bribery, extortion, fraud and money laundering
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	7.2 ESG Key Performance List	
B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	3.1.4 Adhering to Business Ethics	
B7.3	Description of anti-corruption training provided to directors and staff.	3.1.4 Adhering to Business Ethics 7.2 ESG Key Performance List	
Aspect B8: Community Investment			
General Disclosure		6.3 Public Welfare Charity 7.1 List of Policies	
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	6.3 Public Welfare Charity 7.2 ESG Key Performance List	
B8.2	Resources contributed (e.g. money or time) to the focus area	6.3 Public Welfare Charity 7.2 ESG Key Performance List	

Independent Auditor's Report

Ernst & Young
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Quarry Bay, Hong Kong

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To the shareholders of GUSHENGTANG HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of GUSHENGTANG HOLDINGS LIMITED (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 177 to 285, which comprise the consolidated statement of financial position as at 31 December 2022, 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 a summary of significant accounting policies.

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 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") 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 ("**HKSAs**") issued by the 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.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Recognition of revenue from provision of healthcare solutions	
For the year ended 31 December 2022, the Group's consolidated revenue from healthcare solution segment amounted to RMB1,595,717,000. There is risk inherently based on the fact that the Group generated revenue primarily through extensively self-operated clinics and online medical platforms to a variety of individual customers with whom the transaction volume was massive in quantity. Therefore, this area was of higher assessed risk of material misstatement and was identified as a key audit matter. The accounting policy relating to revenue recognition is disclosed in note 2.4 to the financial statements and the details of revenue is disclosed in note 5 to these financial statements.	The audit procedures we performed, among others, included the following: • obtaining an understanding of the transaction process of revenue recognition and testing the relevant controls relating to the process of revenue recognition; • reviewing and assessing the Group's revenue recognition policies based on the review of the Group's contracts with customers; • performing revenue cut-off procedures as well as tests of details, on a sampling basis, by checking to the underlying business documents including prescriptions, invoices, and payment records; • performing analytical procedures and data analytics on the Group's revenue and operational data to identify and analyse anomalies or improper transactions; and • agreeing the cash entries to the customer remittance records that identifies the specific sales transactions for which the cash entries agreed to the bank statements or payment records from third-party payment platforms was intended to clear.

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KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill	
As at 31 December 2022, the Group recorded goodwill of RMB816,672,000. In accordance with HKFRSs, the Group is required to perform the impairment test for goodwill annually and the management of the Group have involved an independent third party valuer to assist in performing the impairment test. The recoverable amount of each cash-generating unit (the "**CGU**") is the higher of its fair value less costs of disposal and its value in use using discounted cash flow models based on a financial budget covering a period of 5 years. The impairment test involves significant judgements about future business performance, with key assumptions including cash flows, the overall long-term growth rates and discount rates. This matter was significant to our audit because the balance was material and the test process involved significant judgements. The disclosures about the impairment testing of goodwill are included in notes 3 and 16 to these financial statements.	The audit procedures we performed, among others, included the following: • evaluating the competence, capabilities and independence of the management's independent third party valuer and involving our internal valuation specialists to assist us in evaluating the methodologies and the discount rates used by the management and external valuer for determining the recoverable amounts; • evaluating the underlying data used in the management's cashflow projection on the future revenues and operating results by comparing them to the financial performance of each CGU during the year 2022; • evaluating management's assumption of growth rate of each CGU by examining the business development plans and historical annual growth rate of each CGU, and appropriateness regarding the methodology and basis to allocate the corporate assets to each of the CGUs; • checking the mathematical accuracy of computation supporting the value in use model; and • assessing the adequacy of the related disclosures in the consolidated financial statements.

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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.

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 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 HKFRSs issued by the HKICPA 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.

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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 HKSAs 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 HKSAs, 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.

- 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.

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AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- 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 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 Hui Kin Fai, Stephen.

Ernst & Young
Certified Public Accountants
Hong Kong
17 March 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
REVENUE	5	**1,624,561**	1,372,099
Cost of sales		**(1,125,025)**	(751,795)
Gross profit		**499,536**	620,304
Other income and gains	5	**33,562**	22,314
Selling and distribution expenses		**(207,324)**	(413,526)
Administrative expenses		**(100,220)**	(248,034)
Fair value changes of convertible redeemable preferred shares and convertible bonds		**—**	(419,490)
Other expenses		**(9,791)**	(52,238)
Finance costs	6	**(17,615)**	(28,403)
Share of profits of associates	17	**561**	1,051
PROFIT/(LOSS) BEFORE TAX	7	**198,709**	(518,022)
Income tax (expenses)/credit	10	**(15,158)**	11,136
PROFIT/(LOSS) FOR THE YEAR		**183,551**	(506,886)
OTHER COMPREHENSIVE (LOSS)/INCOME			
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(122,813)**	8,284

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Translation of the Company's functional currency to presentation currency		**114,557**	28,737
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(8,256)**	37,021
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**175,295**	(469,865)
Profit/(loss) attributable to:			
Owners of the parent		**183,294**	(507,069)
Non-controlling interests		**257**	183
		183,551	(506,886)
Total comprehensive income/(loss) attributable to:			
Owners of the parent		**175,038**	(470,048)
Non-controlling interests		**257**	183
		175,295	(469,865)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
— For profit/(loss) for the year	12	**0.80**	(4.38)
Diluted			
— For profit/(loss) for the year	12	**0.77**	(4.38)

Consolidated Statement of Financial Position

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**70,863**	64,803
Right-of-use assets	15(a)	**268,469**	248,143
Goodwill	16	**816,672**	688,615
Other intangible assets	14	**27,757**	31,425
Investments in associates	17	**6,069**	11,004
Prepayments, other receivables and other assets	20	**28,407**	10,814
Deferred tax assets	26	**35,775**	40,164
Total non-current assets		**1,254,012**	1,094,968
CURRENT ASSETS			
Inventories	18	**104,855**	77,364
Trade receivables	19	**89,411**	72,696
Prepayments, deposits and other receivables	20	**135,583**	109,294
Financial assets at fair value through profit or loss	21	**35,432**	3,207
Restricted cash	22	**—**	3,567
Cash and cash equivalents	22	**994,330**	1,030,704
Total current assets		**1,359,611**	1,296,832
CURRENT LIABILITIES			
Trade and bills payables	23	**164,305**	161,332
Other payables and accruals	24	**299,958**	276,617
Interest-bearing bank and other borrowings	25	**18,214**	17,478
Lease liabilities	15(b)	**57,418**	57,458
Provisions	30	**—**	121
Tax payable		**14,422**	8,129
Total current liabilities		**554,317**	521,135
NET CURRENT ASSETS		**805,294**	775,697
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,059,306**	1,870,665

Consolidated Statement of Financial Position

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	25	**52,957**	66,835
Lease liabilities	15(b)	**222,698**	203,594
Other payables and accruals	24	**56,062**	44,638
Deferred tax liabilities	26	**5,455**	6,187
Total non-current liabilities		**337,172**	321,254
Net assets		**1,722,134**	1,549,411
EQUITY			
Equity attributable to owners of the Company			
Share capital	27	**147**	147
Shares held for share award schemes	27	**(20,121)**	—
Reserves	29	**1,741,040**	1,548,747
		1,721,066	1,548,894
Non-controlling interests		**1,068**	517
Total equity		**1,722,134**	1,549,411

Tu Zhiliang
Director

Liu Kanghua
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2022

		Attributable to owners of the Company										
	Notes	Share capital RMB'000	Shares held for share award schemes RMB'000	Share premium * RMB'000	Capital reserve* RMB'000	Share option reserve* RMB'000	Statutory surplus reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Accumulated losses* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2022		147	–	3,086,655	23,627	127,656	4,488	62,111	(1,755,790)	1,548,894	517	1,549,411
Profit for the year		–	–	–	–	–	–	–	183,294	183,294	257	183,551
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations		–	–	–	–	–	–	(122,813)	–	(122,813)	–	(122,813)
Translation of the Company's functional currency to presentation currency		–	–	–	–	–	–	114,557	–	114,557	–	114,557
Total comprehensive income/(loss) for the year		–	–	–	–	–	–	(8,256)	183,294	175,038	257	175,295
Acquisition of a subsidiary		–	–	–	–	–	–	–	–	–	294	294
Equity-settled share option arrangements	28(a)	–	–	–	–	17,255	–	–	–	17,255	–	17,255
Share purchased for the share award schemes	28(c)	–	(20,121)	–	–	–	–	–	–	(20,121)	–	(20,121)
At 31 December 2022		147	(20,121)	3,086,655	23,627	144,911	4,488	53,855	(1,572,496)	1,721,066	1,068	1,722,134

Consolidated Statement of Changes in Equity

Year ended 31 December 2022

		Attributable to owners of the Company									
	Notes	Share capital RMB'000	Share premium* RMB'000	Capital reserve* RMB'000	Share option reserve* RMB'000	Statutory surplus reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Accumulated losses* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity/ (deficiency in asset) RMB'000
At 1 January 2021		–	–	23,627	61,875	4,488	25,090	(1,248,721)	(1,133,641)	334	(1,133,307)
Loss for the year		–	–	–	–	–	–	(507,069)	(507,069)	183	(506,886)
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations		–	–	–	–	–	8,284	–	8,284	–	8,284
Translation of the Company's functional currency to presentation currency		–	–	–	–	–	28,737	–	28,737	–	28,737
Total comprehensive loss for the year		–	–	–	–	–	37,021	(507,069)	(470,048)	183	(469,865)
Issuance of ordinary shares	27	14	349,428	–	–	–	–	–	349,442	–	349,442
Equity-settled share option arrangements	28(a)	–	–	–	127,656	–	–	–	127,656	–	127,656
Share options exercised	27	11	98,618	–	(61,875)	–	–	–	36,754	–	36,754
Issue of shares in connection with the IPO	27	18	660,447	–	–	–	–	–	660,465	–	660,465
Share issue expenses	27	–	(46,322)	–	–	–	–	–	(46,322)	–	(46,322)
Transfer from convertible redeemable preferred shares	27	104	2,024,484	–	–	–	–	–	2,024,588	–	2,024,588
At 31 December 2021		147	3,086,655	23,627	127,656	4,488	62,111	(1,755,790)	1,548,894	517	1,549,411

* There reserve accounts comprise the consolidated reserve of RMB1,741,040,000 (2021: reserve of RMB1,548,747,000) in the consolidated statement of financial position as at 31 December 2022.

Consolidated Statement of Cash Flows

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**198,709**	(518,022)
Adjustments for:			
Finance costs	6	**17,615**	28,403
Share of profits of associates	17	**(561)**	(1,051)
Interest income	5	**(14,055)**	(3,525)
Loss on disposal of items of property, plant and equipment	7	**285**	—
Depreciation of property, plant and equipment	7	**31,627**	25,985
Amortisation of other intangible assets	7	**4,204**	4,058
Depreciation of right-of-use assets	7	**72,062**	63,800
Equity-settled share option expense	28	**17,255**	171,405
Fair value (gain)/loss on financial assets at fair value through profit or loss	7	**(1,093)**	4,755
Fair value loss on convertible redeemable preferred shares	7	**—**	409,553
Fair value loss on convertible bonds	7	**—**	9,937
Covid-19-related rent concessions from lessors	5	**(4,355)**	—
Impairment of trade receivables	7	**679**	353
Gain on disposal of a partial interest in an associate	5	**(310)**	—
		322,062	195,651
Decrease/(increase) in restricted cash		**3,567**	(3,567)
Increase in inventories		**(23,097)**	(18,631)
Increase in trade receivables		**(7,598)**	(8,566)
Increase in prepayments, other receivables and other assets		**(26,578)**	(12,671)
(Decrease)/increase in trade and bills payables		**(12,773)**	21,609
Increase in other payables and accruals		**16,565**	15,604
Cash generated from operations		**272,148**	189,429
Interest received		**14,055**	3,525
Corporate income tax paid		**(5,208)**	(5,199)
Net cash flows from operating activities		**280,995**	187,755

Consolidated Statement of Cash Flows

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(36,971)**	(49,721)
Proceeds from disposal of items of property, plant and equipment		**32**	1,003
Additions to other intangible assets		**(536)**	(2,674)
Acquisition of subsidiaries	31	**(109,459)**	(133,418)
Additional investments in associates		**(8,194)**	(6,781)
Purchase of financial assets at fair value through profit or loss		**(1,220,900)**	(321,000)
Proceeds of redemption of financial assets at fair value through profit or loss		**1,191,664**	429,371
Proceeds of the disposal of a partial interest in an associate		**6,000**	—
Repayment from a director		**—**	34,268
Net cash flows used in investing activities		**(178,364)**	(48,952)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of preferred shares	35	**—**	243,740
Issue of ordinary shares		**—**	250,558
Proceeds from issue of shares related to initial public offering	27(f)	**—**	660,465
Share issue expenses		**(13,209)**	(33,113)
New bank loans and other borrowings	35	**999**	112,466
Repayment of bank loans and other borrowings	35	**(19,293)**	(173,291)
Principal portion of lease payments	35	**(68,840)**	(64,840)
Interest paid	35	**(17,615)**	(28,403)
Shares purchased for the share award schemes	28(c)	**(20,121)**	—
Repayment of convertible bonds	35	**—**	(329,013)
Net cash flows (used in)/from financing activities		**(138,079)**	638,569
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(35,448)**	777,372
Cash and cash equivalents at the beginning of the year		**1,030,704**	249,994
Effect of foreign exchange rate changes, net		**(926)**	3,338
CASH AND CASH EQUIVALENTS AT END OF YEAR		**994,330**	1,030,704
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	**684,330**	634,271
Non-pledged time deposits with original maturity of less than three months when acquired	22	**310,000**	400,000
Less: Restricted cash	22	**—**	(3,567)
Cash and bank balances as stated in the consolidated statement of financial position and the consolidated statement of cash flows		**994,330**	1,030,704

1. CORPORATE AND GROUP INFORMATION

GUSHENGTANG HOLDINGS LIMITED (the "**Company**") is an exempted company with limited liability incorporated in the Cayman Islands under the laws of the Cayman Islands on 8 May 2014. The registered office address of the Company at Harneys Fiduciary (Cayman) Limited, 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands.

The Company is an investment holding company. The Company's subsidiaries were principally engaged in the provision of a variety of healthcare businesses, including the provision of healthcare services and sale of healthcare products.

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Guangdong Gushengtang Health Technology Co., Limited [a]	People's Republic of China ("**PRC**")/ Mainland China	RMB30,577,276	–	100%	Investment management
Guangzhou Blue Ocean Pharmaceutical Co., Ltd. ("**Blue Ocean**") [b]	PRC/Mainland China	RMB10,000,000	–	100%	Pharmaceutical wholesale and supply chain management
Beijing Gushengtang TCM Hospital Co., Ltd. [b]	PRC/Mainland China	RMB600,000	–	100%	Provision of medical services
Shenzhen Gushengtang Yuanbo Out-patient Department [b]	PRC/Mainland China	RMB2,000,000	–	100%	Provision of medical services
Zhongshan Gushengtang TCM Out-patient Department Co., Ltd. [b]	PRC/Mainland China	RMB3,000,000	–	100%	Provision of medical services
Foshan Shunde Gushengtang TCM Out-patient Department Co., Ltd. [b]	PRC/Mainland China	RMB5,000,000	–	100%	Provision of medical services
Foshan Gushengtang TCM Out-patient Department Co., Ltd. (Nanhai Branch) [b]	PRC/Mainland China	RMB1,200,000	–	100%	Provision of medical services
Fuzhou Gushengtang General Out-patient Department Co., Ltd. [b]	PRC/Mainland China	RMB5,600,000	–	100%	Provision of medical services
Shanghai Wanjia TCM Out-patient Co., Ltd. [b]	PRC/Mainland China	RMB16,800,000	–	100%	Provision of medical services
Shanghai Duzhuang Out-patient Department Co., Ltd. [b]	PRC/Mainland China	RMB500,000	–	100%	Provision of medical services

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shanghai Jinyue Out-patient Department Co., Ltd. (b)	PRC/Mainland China	RMB2,000,000	–	100%	Provision of medical services
Shanghai Gushengtang Tongbaokang TCM Out-patient Department Co., Ltd. (b)	PRC/Mainland China	RMB500,000	–	100%	Provision of medical services
Shanghai Zhenantang TCM Out-patient Department Co., Ltd. (b)	PRC/Mainland China	RMB16,000,000	–	100%	Provision of medical services
Shanghai Zhongyida TCM Out-patient Department Co., Ltd. (b)	PRC/Mainland China	RMB6,000,000	–	100%	Provision of medical services
Nanjing Gushengtang Ningxi TCM Out-patient Department Co., Ltd. (b)	PRC/Mainland China	RMB33,500,000	–	100%	Provision of medical services
Suzhou Gushengtang Taohuawu TMC Out-patient Department Co., Ltd. (b)	PRC/Mainland China	RMB1,000,000	–	100%	Provision of medical services
Suzhou Tongan Out-patient Department Co., Ltd. (b)	PRC/Mainland China	RMB1,000,000	–	100%	Provision of medical services
Suzhou Gushengtang Shilu Clinic Co., Ltd.(b)	PRC/Mainland China	RMB3,500,000	–	100%	Provision of medical services
Ningbo Haishu Gushengtang TCM Out-patient Co., Ltd. (b)	PRC/Mainland China	RMB12,000,000	–	100%	Provision of medical services
Ningbo Yinzhou Gushengtang Zhongyishoutang TCM Out-patient Department Co., Ltd. (b)	PRC/Mainland China	RMB15,000,000	–	100%	Provision of medical services
Ningbo Jiangbei Wenjiao Gushengtang TCM Out-patient Department Co., Ltd. (b)	PRC/Mainland China	RMB3,000,000	–	100%	Provision of medical services
Ningbo Zhenhai Gushengtang Manshan TCM Out-patient Department Co., Ltd. (b)	PRC/Mainland China	RMB2,200,000	–	100%	Provision of medical services
Guangzhou Tianhe Gushengtang Healthcare Out-patient Co., Ltd. (b)	PRC/Mainland China	RMB500,000	–	100%	Provision of medical services
Guangzhou Haizhu Gushengtang TCM Out-patient Department Co., Ltd. (b)/(c)	PRC/Mainland China	RMB4,000,000	–	90%	Provision of medical services
Guangzhou Gushengtang Lingnan TCM Hospital Co., Ltd. (b)	PRC/Mainland China	RMB990,000	–	100%	Provision of medical services
Guangzhou Liwan Gushengtang TCM Out-patient Department Co., Ltd. (b)	PRC/Mainland China	RMB1,000,000	–	100%	Provision of medical services
Guangzhou Baiyuan Gushengtang General Out-patient Department Co., Ltd. (b)	PRC/Mainland China	RMB1,000,000	–	100%	Provision of medical services

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Guangzhou Haizhu Gushengtang Baogang TCM Out-patient Department Co., Ltd. (b)	PRC/Mainland China	RMB3,000,000	–	100%	Provision of medical services
Guangzhou Tianhe Gushengtang Wushan General Out-patient Department Co., Ltd. (b)	PRC/Mainland China	RMB2,000,000	–	100%	Provision of medical services
Guangzhou Yuexiu Gusheng Out-patient Department Co., Ltd. (b)	PRC/Mainland China	RMB5,000,000	–	100%	Provision of medical services
Wuxi Gushengtang Baoyuanchun Nanchan Temple TCM Hospital Co., Ltd. (b)	PRC/Mainland China	RMB12,000,000	–	100%	Provision of medical services
Wuxi Gushengtang Baoyuanchun Chongan Temple TCM Hospital Co., Ltd. (b)	PRC/Mainland China	RMB10,000,000	–	100%	Provision of medical services
Shenzhen Gushengtang Xiangzhu Out-patient Department (b)	PRC/Mainland China	RMB2,000,000	–	100%	Provision of medical services
Shanghai Pudong New Area Shenhua TCM Out-patient Department Co., Ltd. (b)	PRC/Mainland China	RMB7,500,000	–	100%	Provision of medical services
Ningbo Haishu Gushengtang Liuting TCM Out-patient Department Co., Ltd. (b)	PRC/Mainland China	RMB8,000,000	–	100%	Provision of medical services
Fuzhou Xiulichun TCM Out-patient Department Co., Ltd. (b)	PRC/Mainland China	RMB16,000,000	–	100%	Provision of medical services
Lianjiang Gushengtang Out-patient Department Co., Ltd. (b)	PRC/Mainland China	RMB3,000,000	–	100%	Provision of medical services
Beijing Gushengtang Panjiayuan TCM Hospital Co., Ltd. (b)	PRC/Mainland China	RMB600,000	–	100%	Provision of medical services
Gushengtang (Zhejiang) Traditional Chinese Medicine Development Co., Ltd. (b)	PRC/Mainland China	RMB100,000,000	–	100%	Provision of medical services
Beijing Guozong Jishi Traditional Chinese Medicine Hospital Co., Ltd. (b)	PRC/Mainland China	RMB15,000,000	–	100%	Provision of medical services
Hangzhou Datong Traditional Chinese Medicine Out-patient Department Co., Ltd. (b),(c)	PRC/Mainland China	RMB83,700,000	–	93%	Provision of medical services

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Notes:

(a) As a result of the contractual agreements, the Group is exposed, or has rights, to variable returns from its involvement with Guangdong Gushengtang Health Technology Co., Limited and its subsidiaries (collectively, "**Gushengtang China**") and has the ability to affect those returns through its power over Gushengtang China and is considered to control Gushengtang China.

(b) The entity is registered as a limited liability under PRC law.

(c) The company is a non-wholly-owned subsidiary of the Company.

The English names of the above companies registered in Mainland China represent the best effort made by the directors of the Company (the "**Directors**") to translate the Chinese names as these companies have not been registered with any official English names.

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. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain financial instruments, including financial assets at fair value through profit or loss and payables for the Incentive Arrangement (as defined in note 28) which have been measured at fair value. These financial statements are presented in 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 2022. 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).

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (continued)

Generally, there is a presumption that a majority of voting rights results in control. When the Company has, directly or indirectly, 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 (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendment to HKFRS 3	*Reference to the Conceptual Framework*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021*
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to HKAS 37	*Onerous Contracts — Cost of Fulfilling a Contract*
Annual Improvements to HKFRSs 2018–2020	*Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41*

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

(a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "**Conceptual Framework**") issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK (IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK (IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(d) *Annual Improvements to HKFRSs* 2018–2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendment that is applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*[2]
HKFRS 17	*Insurance Contracts*[1]
Amendments to HKFRS 17	*Insurance Contracts*[1,5]
Amendment to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information*[6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current (the "2020 Amendments")* [2,4]
Amendments to HKAS 1	*Non-current Liabilities with Covenants (the "**2022 Amendments**")* [2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to HKAS 8	*Definition of Accounting Estimates*[1]
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2024
3 No mandatory effective date yet determined but available for adoption
4 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion
5 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023
6 An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of HKFRS 17

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

The management of the Group considers that these new and revised HKFRSs may result in changes in accounting policies but are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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).

When the Company has, directly or indirectly, 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 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. The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates (continued)

The Group's share of the post-acquisition results and other comprehensive income of associates is included in profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in associates, except where unrealized losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of the associate is included as part of the Group's investments in associates.

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 acquire 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 that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

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 net 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. 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.

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 its financial assets at fair value through profit or loss 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

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 categorized 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 categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and deferred tax assets), 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (continued)

An assessment is made at the end of each of the 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/amortization) 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

(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 Group (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;
- (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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment 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.

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 capitalized 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.

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 principal annual rates used for this purpose are as follows:

Furniture, fixtures and equipment	17% to 33%
Leasehold improvements	Over the shorter of the lease terms and 20%
Motor vehicles	25%

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 represents leasehold improvements under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the leasehold improvements of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. 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 amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year/period end.

Software and online platform

Software and online platform are stated at cost less any impairment loss and are amortised on the straight-line basis over their estimated useful life of 5 to 10 years based on the Group's past experiences, future business plan and observable market data.

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalized 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 criterial 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.

2.4 SUMMARY OF SIGNIFICANT 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. Right-of-use assets are measured at cost, less any accumulated depreciation and 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. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Office building	1.25 to 15 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 terminating 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 on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if 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 future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Group as a lessee (continued)

(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 office building (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.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease. Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

When the Group is an intermediate lessor, a sublease is classified as a finance lease or operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the on-balance sheet recognition exemption, the Group classifies the sublease as an operating lease.

2.4 SUMMARY OF SIGNIFICANT 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 and fair value through profit or loss.

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 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 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 HKFRS 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.

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) (CONTINUED)

Investments and other financial assets (Continued)

Subsequent measurement (Continued)

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.

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 ("**ECLs**") 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.

2.4 SUMMARY OF SIGNIFICANT 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 the end of each of the reporting period, 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 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.

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 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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

Simplified approach

For trade 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 economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans, borrowings and payables.

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

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals, lease liabilities, convertible redeemable preferred shares, convertible bonds, and interest-bearing bank loans and other borrowing and bonds payable.

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 HKFRS 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) (CONTINUED)

Financial liabilities (Continued)

Subsequent measurement (Continued)

Financial liabilities at fair value through profit or loss (Continued)

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 HKFRS 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 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 (loans and other borrowings)

After initial recognition, interest-bearing other 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 amortization 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 amortization is included in finance costs in profit or loss.

Convertible redeemable preferred shares

The Series A, B, C, D and E of convertible redeemable preferred shares (collectively, the "**Preferred Shares**") issued by the Company are classified, on the basis of their component parts, as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Preferred shares issued are classified as equity if they are non-redeemable by the Company or redeemable only at the Company's option, and any dividends are discretionary. Dividends on preferred shares capital classified as equity are recognised as distributions within equity. Preferred shares are classified as financial liabilities if they are redeemable on a specific date or at the option of the shareholders (including options that are only exercisable in case of triggering events having occurred).

The Preferred Shares are redeemable upon occurrence of certain future events. These instruments can also be converted into ordinary shares of the Company at any time at the option of the holders, or automatically upon occurrence of an initial public offering of the Company, or when agreed by majority of the holders.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Convertible redeemable preferred shares (continued)

The Group designated the Preferred Shares as financial liabilities at fair value through profit or loss. They are initially recognised at fair value. Any directly attributable transaction costs are recognised as finance costs in profit or loss. The component of fair value changes relating to the Company's own credit risk is recognised in other comprehensive income. Amounts recorded in other comprehensive income related to credit risk are not subject to recycling in profit or loss, but are transferred to retained earnings when realised. Fair value changes relating to market risk are recognised in profit or loss.

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT 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 effect of discounting is material, the amount recognised for a provision is the present value at the end of each 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 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 for the current and prior periods 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 each 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 liabilities 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

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, 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.

2.4 SUMMARY OF SIGNIFICANT 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

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, 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 of the 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 of the 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 each 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 HKFRS 15.

(a) Healthcare solutions

Healthcare solutions comprise consultation and diagnosis service, prescription service, decoction service, medication and physiotherapy. These services constitute three performance obligations: i) consultation, diagnosis and prescription, ii) decoction and medication, and iii) physiotherapy. The Group allocates the transaction price to each performance obligation based on the relative stand-alone selling price. For all of the three performance obligations, control of the respective service is transferred at a point in time, i.e. upon completion of the respective service or delivery of medicative healthcare products to the customer. Revenue from consultation, diagnosis and prescription is recognised when those services are completed. Revenue from decoction and medication is recognised when the related medicative healthcare products are delivered to the customer. Revenue from physiotherapy is recognised evenly upon each of the completed services. Transactions are settled by payment from commercial insurance, the government’s insurance schemes, or directly paid by bank cards, third-party payment platforms or cash from customers.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(b) Sale of healthcare products

Sale of healthcare products includes the sale of valuable medicinal herbs and nourishment and revenue from the sale of healthcare products is recognised at the point in time when control of the asset is transferred to the customer. Transactions are settled by payment from commercial insurance, the government's insurance schemes, or directly paid by bank cards or cash from customers.

Other income

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

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

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).

Share-based payments

Equity-settled transactions

The Company operates certain share option schemes and share award schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. 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 for grants 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 28 to these financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (continued)

Equity-settled transactions (continued)

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (continued)

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using the discounted cash flow method, taking into account the terms and conditions upon which the instruments were granted, which was disclosed in note 28 to these financial statements. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The cumulative expense recognised for cash-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 awards that will ultimately vest. The liability is measured at the end of each reporting period up to and including the settlement date, with changes in fair value recognised in profit or loss.

Employee retirement benefits

Mainland China

As stipulated by the rules and regulations of Mainland China, the Company's subsidiaries which operate in Mainland China are required to contribute to a state-sponsored retirement plan for all their Mainland China employees at certain percentages of the basic salaries predetermined by the local governments. The state-sponsored retirement plans are responsible for the entire retirement benefit obligations payable to retired employees and the Group has no further obligations for the actual retirement benefit payments or other post-retirement benefits beyond the annual contributions.

Hong Kong

Under the Mandatory Provident Fund Schemes Ordinance in Hong Kong, the Company's subsidiaries registered in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The costs of employee retirement benefits are recognised as expenses in profit or loss in the period in which they are incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. 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.

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.

Foreign currencies

The functional currency of the Company is the USD while the presentation currency of the Company for these financial statements is the RMB as the Group mainly operates in Mainland China. Each entity in the Group determines its own functional currency and items included in the financial information 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 each of the financial periods. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as the Company's net investment in a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to 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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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 and associates 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. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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.

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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Judgements (continued)

Monetary item designated as the Company's net investment in a foreign operation

An inter-company loan provided by the Company to a foreign operation has been designated as the Company's net investment in a foreign operation as the directors consider that the Company would not demand the repayment of the inter-company loan from the foreign operation in the foreseeable future. If the inter-company loan is considered to be repaid in the foreseeable future and is not designated as the Company's net investment in a foreign operation, the foreign exchange difference included in the other income and gain and the exchange fluctuation reserve would have been increased and decreased by the same amount of approximately RMB122,848,000.

Significant judgement in determining the lease term of contracts with renewal options

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate the lease (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The Group includes the renewal period as part of the lease term for leases of machinery due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e., three to five years). In addition, the renewal options for leases of plant and machinery with longer non-cancellable periods (i.e., 10 to 15 years) are not included as part of the lease term as these are not reasonably certain to be exercised.

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 2022 and 2021 was RMB816,672,000 and RMB688,615,000, respectively. Further details are given in note 16 to these financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2022 and 2021 was RMB12,733,000 and RMB25,874,000, respectively. Further details are contained in note 26 to these financial statements.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., customer type and service type).

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the provision of a variety of healthcare businesses, including the provision of healthcare services and sale of healthcare products.

HKFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. The information reported to the directors of the Company, who are the chief operating decision-makers, for the purpose of resource allocation and assessment of performance does not contain discrete operating segment financial information and the directors reviewed the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented.

As all of the Group's revenue is derived from the PRC, and all of the Group's identifiable non-current assets are located in the PRC, no geographical information as required by HKFRS 8 Operating Segments is presented.

Information about major customers

No revenue from sales to a single customer or a group of customers under common control accounted for 10% or more of the Group's revenue for the reporting period.

5. REVENUE, OTHER INCOME AND GAINS

Revenue

An analysis of the Group's revenue is as follows:

	2022 **RMB'000**	2021 RMB'000
Revenue from contracts with customers	**1,624,561**	1,372,099

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue (continued)

(i) Disaggregated revenue information

	2022 RMB'000	2021 RMB'000
Types of goods or service		
Healthcare solutions	**1,595,717**	1,342,996
Sale of healthcare products	**28,844**	29,103
	1,624,561	1,372,099
Timing of revenue recognition		
Revenue from contracts with customers	**1,624,561**	1,372,099

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:

	2022 RMB'000	2021 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Healthcare solutions	**38,834**	24,429

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue (continued)

(ii) Performance obligations

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

Sale of healthcare products

Revenue from sale of healthcare products, such as valuable medicinal herbs and nourishment, is recognised at the point in time when control of the asset is transferred to the customer, the customers has full discretion to use the healthcare products, and there is no unfulfilled obligation that could affect the customers' acceptance of the healthcare products. Transactions are settled by payment from commercial insurance, the government's insurance schemes, third-party payment platforms, or directly paid by bank cards, third-party payment platforms or cash from customers.

Healthcare solutions

Revenue from healthcare solutions contains more than one performance obligation, including (i) the provision of consultation services, (ii) the sale of pharmaceutical products and (iii) traditional massage, moxibustion, acupuncture and other therapies. The Group allocates the transaction price to each performance obligation based on the relative stand-alone selling price. The control of services or pharmaceutical products is transferred at a point in time, and revenue is recognised when the customer obtains the control of the completed services or pharmaceutical products as the Group has satisfied its performance obligations with a present right to payment and the collection of the consideration is probable. Transactions are settled by payment from commercial insurance, the government's insurance schemes, third-party payment platforms, or directly paid by bank cards, third-party payment platforms or cash from customers.

The Group has established an integrated membership program, which provide customers with significant rights after purchasing membership cards with a validity period of one year. The Group allocates the transaction prices of prepaid membership cards to each performance obligation according to their stand-alone selling prices. Revenue is recognised when the membership rights are redeemed for control of the goods and services.

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue (continued)

(ii) Performance obligations (continued)

Healthcare solutions (continued)

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) are as follows:

	2022 RMB'000	2021 RMB'000
Amounts expected to be recognised as revenue within one year	**26,082**	38,834

Other income and gains

	2022 RMB'000	2021 RMB'000
Interest income	**14,055**	3,525
Government grants*	**11,779**	825
Covid-19-related rent concessions from lessors (note 15(b))	**4,355**	—
Fair value gains on financial assets at fair value through profit or loss, net	**1,093**	—
Rental income	**1,084**	1,405
Foreign exchange differences, net	**—**	15,303
Gain on disposal of partial interest in an associate	**310**	—
Others	**886**	1,256
	33,562	22,314

* There are no unfulfilled conditions or contingencies related to these government subsidies.

6. FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Interest on interest-bearing bank loans and other borrowings	4,571	8,967
Interest on bonds payable	—	7,101
Interest on lease liabilities (note 15(b))	13,044	12,335
	17,615	28,403

7. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2022 RMB'000	2021 RMB'000
Cost of provision of healthcare solutions		1,107,644	735,635
Cost of sale of healthcare products		17,381	16,160
Depreciation of property, plant and equipment	13	31,627	25,985
Amortisation of other intangible assets	14	4,204	4,058
Depreciation of right-of-use assets	15(a)	72,062	63,800
Lease payments not included in the measurement of lease liabilities	15(c)	4,045	849
Auditor's remuneration		3,880	3,300
Listing expenses*		—	42,707
Employee benefit expense (excluding directors' remuneration (note 8)):			
Wages and salaries		231,005	187,246
Equity-settled share-based payments	28	2,272	124,126
Pension scheme contributions		39,911	31,676
		273,188	343,048

7. PROFIT/(LOSS) BEFORE TAX (CONTINUED)

	Notes	2022 RMB'000	2021 RMB'000
Foreign exchange differences, net		**4,550***	(15,303)**
Fair value losses on convertible redeemable preferred shares		**—**	409,553
Fair value loss on convertible bonds		**—**	9,937
Fair value (gain)/loss on financial assets at fair value through profit or loss, net	5	**(1,093)****	4,755*
Impairment of trade receivables*	19	**679**	353
Loss on disposal of items of property, plant and equipment*		**285**	—
Gain on disposal of partial interest in an associate**		**(310)**	—

\# Included in "Administrative expenses" and "Selling and distribution expenses" in profit or loss.

* Included in "Other expenses" in profit or loss.

** Included in "Other income and gains" in profit or loss.

8. 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:

	2022 RMB'000	2021 RMB'000
Fees	**900**	114
Other emoluments:		
Salaries, allowances and benefits in kind	**2,287**	1,563
Equity-settled share-based payments	**14,983**	47,279
Pension scheme contributions	**84**	84
	17,354	48,926
	18,254	49,040

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

During the year ended 31 December 2021, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 28(a) to these financial statements. The fair value of such options, 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 for the current year is included in the above directors' and chief executive's remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2022 **RMB'000**	2021 RMB'000
Ms. JIN Xu	**300**	38
Mr. LI Tie	**300**	38
Mr. WU Taibing	**300**	38
	900	114

There were no other emoluments payable to the independent non-executive directors during the year (2021: nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(b) Executive directors, non-executive directors and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Equity-settled share-based payments RMB'000	Total remuneration RMB'000
2022					
Executive director:					
Mr. Tu Zhiliang	–	787	84	14,983	15,854
Non-executive directors:					
Mr. JIANG Xiaodong	–	300	–	–	300
Mr. LIU Kanghua	–	300	–	–	300
Mr. HUANG Jingsheng	–	300	–	–	300
Mr. Gao Jian	–	300	–	–	300
Mr. Xu Yongjiu	–	300	–	–	300
	–	1,500	–	–	1,500
Total	–	2,287	84	14,983	17,354

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Equity-settled share-based payments RMB'000	Total remuneration RMB'000
2021					
Executive director:					
Mr. Tu Zhiliang	–	688	84	47,279	48,051
Non-executive directors:					
Mr. JIANG Xiaodong	–	175	–	–	175
Mr. LIU Kanghua	–	175	–	–	175
Mr. HUANG Jingsheng	–	175	–	–	175
Mr. Gao Jian	–	175	–	–	175
Mr. Xu Yongjiu	–	175	–	–	175
	–	875	–	–	875
Total	–	1,563	84	47,279	48,926

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(b) Executive directors, non-executive directors and the chief executive (continued)

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the years ended 31 December 2022 and 2021, no emoluments were paid by the Group to directors as an inducement to join or upon joining the Group or as compensation for loss of office.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2021: one), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2021: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2022 RMB'000	2021 RMB'000
Salaries, allowances and benefits in kind	2,792	2,763
Performance-related bonuses	1,159	672
Pension scheme contributions	348	324
Equity-settled share-based payments	2,272	93,593
	6,571	97,352

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

	2022	2021
Nil to HK$1,000,000	1	—
HK$1,000,001 to HK$1,500,000	2	—
HK$4,000,001 to HK$4,500,000	1	—
HK$4,500,001 to HK$5,000,000	—	1
HK$5,000,001 to HK$5,500,000	—	1
HK$5,500,001 to HK$6,000,000	—	1
HK$59,500,001 to HK$60,000,000	—	1
	4	4

During the year and in prior year, no highest paid employees waived or agreed to waive any remuneration.

9. FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

During the year and in prior year, no emoluments were paid by the Group to the frve highest paid errployees who is not a director as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX EXPENSES/(CREDIT)

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

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax is imposed.

Mainland China

Pursuant to the PRC Income Tax Law and the respective regulations, a subsidiary which operates in Mainland China is subject to corporate income tax at a rate of 25% on the taxable income. Certain subsidiaries of the Group in Mainland China are regarded as "small and micro enterprises" and, accordingly, were entitled to a preferential income tax rate of 2.5% to 5% during the reporting period.

Hong Kong

No provision for Hong Kong profits tax has been made as the company had no assessable profits derived from or earned in Hong Kong during the reporting period. The subsidiary incorporated in Hong Kong is subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year.

	2022 RMB'000	2021 RMB'000
Current	**11,501**	6,300
Deferred (note 26)	**3,657**	(17,436)
Total tax charge/(credit) for the year	**15,158**	(11,136)

10. INCOME TAX EXPENSES/(CREDIT) (CONTINUED)

A reconciliation of the income tax expenses/(credit) applicable to profit/(loss) before tax using the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense/(credit) at the effective tax rates, and a reconciliation of the applicable tax rates to the effective tax rates, are as follows:

Year ended 31 December 2022

	Mainland China		Elsewhere*		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	201,653		(2,943)		198,710	
Tax at the statutory tax rate	50,413	25.0	–	–	50,413	25.4
Lower tax rate for specific provinces or enacted by local authority	(22,589)	(11.2)	–	–	(22,589)	(11.4)
Tax incentive on eligible expenses	(3,430)	(1.7)	–	–	(3,430)	(1.7)
Expenses not deductible for tax	5,569	2.8	–	–	5,569	2.8
Tax losses utilised from previous periods	(13,253)	(6.6)	–	–	(13,253)	(6.7)
Tax losses not recognised	3,374	1.7	–	–	3,374	1.7
Tax losses recognised from previous periods	(4,926)	(2.5)	–	–	(4,926)	(2.5)
Tax charge at the Group's effective tax rate	15,158	7.5	–	–	15,158	7.6

Year ended 31 December 2021

	Mainland China		Elsewhere*		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Loss before tax	(37,631)		(480,391)		(518,022)	
Tax at the statutory tax rate	(9,408)	25.0	–	–	(9,408)	1.8
Lower tax rate for specific provinces or enacted by local authority	(13,916)	37.0	–	–	(13,916)	2.7
Tax incentive on eligible expenses	(505)	1.3	–	–	(505)	0.1
Expenses not deductible for tax	12,003	(31.9)	–	–	12,003	(2.3)
Tax losses utilised from previous periods	(4,719)	12.5	–	–	(4,719)	0.9
Tax losses not recognised	11,460	(30.5)	–	–	11,460	(2.2)
Tax losses recognised from previous periods	(6,051)	16.1	–	–	(6,051)	1.2
Tax charge at the Group's effective tax rate	(11,136)	29.6	–	–	(11,136)	2.1

* Elsewhere represented the Group's subsidiaries incorporated in the Cayman Islands or Hong Kong.

11. DIVIDENDS

No dividend was proposed for the years ended 31 December 2022 and 2021.

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings (2021: loss) per share amount is based on the earnings (2021: loss) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 230,272,209 (2021: 115,752,462) in issue during the year, as adjusted to reflect the rights issue during the year.

The calculation of the diluted earnings/loss per share amounts is based on the profit/loss for the year attributable to ordinary equity holders of the parent. 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/loss 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 under the share option schemes.

The calculations of basic and diluted earnings/(loss) per share are based on:

	2022 RMB'000	2021 RMB'000
Earnings/(loss)		
Earnings/(loss) attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**183,294**	(507,069)

	Number of shares	
Shares		
Weighted average number of ordinary shares in issue	**230,396,458**	115,752,462
Weighted average number of ordinary shares held for the share award scheme	**(124,249)**	—
Weighted average number of ordinary shares in issue used in the basic earnings per share calculation	**230,272,209**	115,752,462
Effect of dilution — weighted average number of ordinary shares:		
Share options	**8,777,679**	—*
	239,049,888	115,752,462

* No adjustment has been made to the basic loss per share amount for the year ended 31 December 2021 in respect of a dilution as the impact of a share option outstanding had an anti-dilution effect on the basic loss per share amount.

13. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2022				
At 1 January 2022:				
Cost	60,321	151,616	3,123	215,060
Accumulated depreciation and impairments	(42,107)	(107,374)	(776)	(150,257)
Net carrying amount	18,214	44,242	2,347	64,803
At 1 January 2022, net of accumulated depreciation	18,214	44,242	2,347	64,803
Additions	12,562	23,078	2,901	38,541
Disposals	(854)	—	—	(854)
Depreciation provided during the year	(11,190)	(17,770)	(2,667)	(31,627)
At 31 December 2022, net of accumulated depreciation	18,732	49,550	2,581	70,863
At 31 December 2022:				
Cost	70,818	174,694	6,024	251,536
Accumulated depreciation and impairments	(52,086)	(125,144)	(3,443)	(180,673)
Net carrying amount	18,732	49,550	2,581	70,863

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Furniture, fixtures and equipment RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2021				
At 1 January 2021:				
Cost	47,392	119,056	803	167,251
Accumulated depreciation and impairments	(34,218)	(90,833)	(738)	(125,789)
Net carrying amount	13,174	28,223	65	41,462
At 1 January 2021, net of accumulated depreciation	13,174	28,223	65	41,462
Additions	14,895	32,560	2,874	50,329
Disposals	(707)	–	(296)	(1,003)
Depreciation provided during the year	(9,148)	(16,541)	(296)	(25,985)
At 31 December 2021, net of accumulated depreciation	18,214	44,242	2,347	64,803
At 31 December 2020, net of accumulated depreciation	13,174	28,223	65	41,462
At 31 December 2021:				
Cost	60,321	151,616	3,123	215,060
Accumulated depreciation and impairments	(42,107)	(107,374)	(776)	(150,257)
Net carrying amount	18,214	44,242	2,347	64,803

14. OTHER INTANGIBLE ASSETS

	Software RMB'000	Online platform RMB'000	Total RMB'000
31 December 2022			
At 1 January 2022, net of accumulated amortisation	**5,237**	**26,188**	**31,425**
Additions	**536**	**—**	**536**
Amortisation provided during the year	**(1,278)**	**(2,926)**	**(4,204)**
At 31 December 2022	**4,495**	**23,262**	**27,757**
At 31 December 2022			
Cost	**9,390**	**29,259**	**38,649**
Accumulated amortisation and impairments	**(4,895)**	**(5,997)**	**(10,892)**
Net carrying amount	**4,495**	**23,262**	**27,757**
31 December 2021			
At 1 January 2021, net of accumulated amortisation	4,030	18,729	22,759
Additions	2,674	—	2,674
Acquisition of a subsidiary (note 31)	—	10,050	10,050
Amortisation provided during the year	(1,467)	(2,591)	(4,058)
At 31 December 2021	5,237	26,188	31,425
At 31 December 2021			
Cost	8,854	29,259	38,113
Accumulated amortisation and impairments	(3,617)	(3,071)	(6,688)
Net carrying amount	5,237	26,188	31,425

15. LEASES

The Group as a lessee

The Group has lease contracts for office buildings used in its operations. Leases of office buildings generally have lease terms between 1.25 years and 15 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group, unless consent is given by the lessors. As a lessee, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for the exemptions for leases of short-term leases. The Group has elected not to recognise right-of-use assets and lease liabilities for leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

(a) Right-of-use assets

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

	2022 RMB'000	2021 RMB'000
At beginning of year	**248,143**	184,171
Additions	**92,388**	127,772
Depreciation charge	**(72,062)**	(63,800)
At end of year	**268,469**	248,143

15. LEASES (CONTINUED)

The Group as a lessee (continued)

(b) Lease liabilities

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

	2022 RMB'000	2021 RMB'000
At beginning of year	**261,052**	198,174
New leases	**92,259**	127,718
Accretion of interest recognised during the year (note 6)	**13,044**	12,335
Covid-19-related rent concessions from lessors (note 5)	**(4,355)**	—
Payments	**(81,884)**	(77,175)
At end of year	**280,116**	261,052
Analysed into:		
Current portion	**57,418**	57,458
Non-current portion	**222,698**	203,594
	280,116	261,052

The maturity analysis of lease liabilities is disclosed in note 38 to these financial statements.

15. LEASES (CONTINUED)

The Group as a lessee (continued)

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

	2022 RMB'000	2021 RMB'000
Interest on lease liabilities	**13,044**	12,335
Depreciation charge of right-of-use assets	**72,062**	63,800
Expense relating to short-term leases (included in administrative expenses)	**4,045**	849
Covid-19-related rent concessions from lessors	**(4,355)**	—
Total amount recognised in profit or loss	**84,796**	76,984

The Group as a lessor

The Group leases part of its office buildings under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year 2022 was RMB1,084,000 (2021: RMB1,405,000), details of which are included in note 5 to these financial statements.

16. GOODWILL

	2022 RMB'000	2021 RMB'000
At the beginning of the year:		
Cost	**691,165**	547,660
Accumulated impairment	**(2,550)**	(2,550)
Net carrying amount	**688,615**	545,110
Cost at the beginning of the year, net of accumulated impairment	**688,615**	545,110
Acquisition of subsidiaries (note 31)	**128,057**	143,505
At the end of the year	**816,672**	688,615
At the end of the year:		
Cost	**819,222**	691,165
Accumulated impairment	**(2,550)**	(2,550)
Net carrying amount	**816,672**	688,615

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units ("**CGUs**") by areas for impairment testing:

- Guangzhou and Foshan ("**Guangzhou and Foshan CGU**");
- Shenzhen ("**Shenzhen CGU**");
- Suzhou and Wuxi ("**Suzhou and Wuxi CGU**");
- Ningbo ("**Ningbo CGU**");
- Nanjing ("**Nanjing CGU**");
- Shanghai ("**Shanghai CGU**");
- Fuzhou ("**Fuzhou CGU**");
- Beijing ("**Beijing CGU**") and
- Hangzhou ("**Hangzhou CGU**").

16. GOODWILL (CONTINUED)

Impairment testing of goodwill (continued)

In 2017, the Group acquired Blue Ocean, which acts as the primary centralised procurement channel in the Group to sell supplies to the relevant medical institutions. Furthermore, in 2020 and 2021, the Group acquired Bailu (an online healthcare platform) and Shanghai Wanlian Pharmacy Co., Ltd ("**Shanghai Wanlian**") for online healthcare platforms specialising in traditional Chinese medical healthcare solutions, to further enhance the online-merge-offline business model across the clinics of the Group. Therefore, management treated these assets as corporate assets and allocated the carrying amounts to each CGU based on the revenue in proportion to total revenue.

The carrying amount of goodwill allocated to each of the CGUs is as follows:

	2022			2021		
	Recoverable amounts RMB'000	Carrying value including goodwill and allocated corporate assets RMB'000	Headroom RMB'000	Recoverable amounts RMB'000	Carrying value including goodwill and allocated corporate assets RMB'000	Headroom RMB'000
Guangzhou and Foshan CGU	549,854	162,365	387,489	526,865	162,913	363,952
Shenzhen CGU	717,237	61,180	656,057	926,802	63,801	863,001
Suzhou and Wuxi CGU	378,056	139,828	238,228	428,407	140,844	287,563
Ningbo CGU	236,504	110,686	125,818	281,159	112,515	168,644
Nanjing CGU	122,315	44,496	77,819	122,555	44,593	77,962
Shanghai CGU	938,931	122,352	816,579	914,819	128,096	786,723
Fuzhou CGU	275,930	60,204	215,726	226,077	58,767	167,310
Beijing CGU	323,516	153,214	170,302	313,947	94,202	219,745
Hangzhou CGU	176,847	78,145	98,702	–	–	–
	3,719,190	932,470	2,786,720	3,740,631	805,731	2,934,900

16. GOODWILL (CONTINUED)

Impairment testing of goodwill (continued)

The pre-tax discount rates applied to the cash flow projections, the forecasted compounded revenue growth rate and gross profit margin used to extrapolate cash flow projections and terminal growth rates are follows:

Guangzhou and Foshan CGU

	2022	2021
Compounded revenue growth rates (during the five-year period)	**10.7%**	13.5%
Gross profit margin*	**34.5%–35.0%**	50.8%–51.8%
Pre-tax discount rate	**13.1%**	13.8%
Terminal growth rate	**3.0%**	3.0%

Shenzhen CGU

	2022	2021
Compounded revenue growth rates (during the five-year period)	**13.4%**	18.4%
Gross profit margin*	**30.0%–31.4%**	49.3%–51.3%
Pre-tax discount rate	**13.1%**	13.7%
Terminal growth rate	**3.0%**	3.0%

Suzhou and Wuxi CGU

	2022	2021
Compounded revenue growth rates (during the five-year period)	**14.2%**	18.0%
Gross profit margin*	**22.5%–25.8%**	41.8%–43.8%
Pre-tax discount rate	**13.0%**	13.7%
Terminal growth rate	**3.0%**	3.0%

16. GOODWILL (CONTINUED)

Impairment testing of goodwill (continued)

Ningbo CGU

	2022	2021
Compounded revenue growth rates (during the five-year period)	**11.5%**	18.3%
Gross profit margin*	**24.6%–28.7%**	42.3%–44.3%
Pre-tax discount rate	**13.0%**	13.7%
Terminal growth rate	**3.0%**	3.0%

Nanjing CGU

	2022	2021
Compounded revenue growth rates (during the five-year period)	**16.6%**	23.1%
Gross profit margin*	**22.0%–24.6%**	37.8%–39.8%
Pre-tax discount rate	**13.0%**	13.6%
Terminal growth rate	**3.0%**	3.0%

Shanghai CGU

	2022	2021
Compounded revenue growth rates (during the five-year period)	**20.5%**	23.8%
Gross profit margin*	**29.2%–33.3%**	47.3–49.3%
Pre-tax discount rate	**13.0%**	13.6%
Terminal growth rate	**3.0%**	3.0%

Fuzhou CGU

	2022	2021
Compounded revenue growth rates (during the five-year period)	**19.5%**	24.5%
Gross profit margin*	**28.3%–29.5%**	44.4%–45.2%
Pre-tax discount rate	**13.0%**	13.7%
Terminal growth rate	**3.0%**	3.0%

16. GOODWILL (CONTINUED)

Impairment testing of goodwill (continued)

Beijing CGU

	2022	2021
Compounded revenue growth rates (during the five-year period)	**20.0%**	16.6%
Gross profit margin*	**25.6%–29.1%**	44.3%–45.8%
Pre-tax discount rate	**13.1%**	13.7%
Terminal growth rate	**3.0%**	3.0%

Hangzhou CGU

	2022	2021
Compounded revenue growth rates (during the five-year period)	**12.7%**	—
Gross profit margin*	**20.6%–27.0%**	—
Pre-tax discount rate	**13.0%**	—
Terminal growth rate	**3.0%**	—

Assumptions were used in the value in use calculation of the cash-generating units for 31 December 2021 and 2022. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Compounded revenue growth rate — The compound revenue growth rate within the reporting period is estimated based on the historical sales data and market outlook perceived by management.

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

The values assigned to the key assumptions on market development and discount rates are consistent with external information sources.

According to the sensitivity analysis of the key assumptions on which the management of the Group has based to undertake impairment testing of goodwill, the management of the Group believe that no reasonably possible change in any of the above key assumptions would cause the carrying value of any CGU to exceed its recoverable amount.

* After launch of the "online-merge-offline" business model in last quarter 2021 after completion a series of acquisitions online medical platforms, the Group shifted its marketing activities from "Traditional offline promotional model" to "Traffic Model" during the year. The nature of expenses changed after the operational restructuring and the offline clinic operation costs would then be classified in "Cost of sales". As a result, the gross profit margin in the current year decreased sharply.

17. INVESTMENTS IN ASSOCIATES

	2022 RMB'000	2021 RMB'000
Share of net assets	**6,069**	11,004

Particulars of the associates are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of Ownership interest	Voting power	Profit sharing	Principal activities
Guangzhou Walkorld Cultural Communication Co., Ltd. ("**Walkorld**")[(a)]	Ordinary shares	PRC/Mainland China	7.9%	7.9%	7.9%	Brand billboard production and marketing
Guangzhou Yanqing Health Trading for Technology Co., Ltd. ("**Guangzhou Yanqing**")[(b)]	Ordinary shares	PRC/Mainland China	29.0%	29.0%	29.0%	Trading for medical equipment

Notes:

(a) As at 31 December 2021, the Group's shareholding in Walkorld was 23.5%. In February 2022, the Group disposed of 15% of its equity interest in Walkorld for a cash consideration of RMB6,000,000 to an independent third party and recognised a gain of RMB310,000 (note 5). As at 31 December 2022, the Group's held 7.9% equity interest in Walkorld and continued to have significant influence over Walkorld as one out of five executive directors of Walkorld was appointed by the Group.

(b) During the year ended 31 December 2021, the Group invested RMB2,900,000 to establish Guangzhou Yanqing with an independent third party, and the Group has a 29% equity interest in the company, resulting in significant influence over this company. As at 31 December 2022, the Group has fully paid all the investment.

The following table illustrates the aggregate financial information of the Group's associates:

	2022 RMB'000	2021 RMB'000
Share of the associates' profit for the year	**561**	1,051
Share of the associates' total comprehensive income for the year	**561**	1,051
Gain on disposal of partial interest in an associate	**310**	—
Aggregate carrying amount of the Group's investments in the associates	**6,069**	11,004

18. INVENTORIES

	2022 RMB'000	2021 RMB'000
Pharmaceuticals, consumables and packaging materials	**104,855**	77,364

There was no inventory provision recognised during the years ended 31 December 2022 (2021: nil).

19. TRADE RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	**90,740**	73,639
Impairment	**(1,329)**	(943)
	89,411	72,696

The individual patients of the Group usually settle payments by cash or the government's social insurance schemes. Payments by the PRC government's social insurance schemes will normally be settled in 30 to 180 days from the transaction date by the local social insurance bureau or similar government departments which are responsible for the reimbursement of medical expenses for patients who are covered by the government's medical insurance schemes. Corporate customers will normally settle the amounts by bank transfers within 90 days after the transaction date.

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

	2022 RMB'000	2021 RMB'000
Within three months	**80,970**	66,971
Three months to one year	**7,624**	5,129
Over one year	**817**	596
	89,411	72,696

19. TRADE RECEIVABLES (CONTINUED)

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

	2022 RMB'000	2021 RMB'000
At beginning of year	**943**	883
Impairment losses, net (note 7)	**679**	353
Amount written off as uncollectible	**(293)**	(293)
At end of year	**1,329**	943

An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., settlement unit). The Group classifies its settlement units into categories A and B, which represent the settlements from corporate customers and state-owned Bureau of Health Insurance Settlement Centers, respectively, based on their own credit risks. 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. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using provision matrixes:

Group A

		Past due		
	Current	Less than one year	Over one year	Total
As at 31 December 2022				
Expected credit loss rate (%)	**0.1**	**12.8**	**50.0**	**10.5**
Gross carrying amount (RMB'000)	**7,116**	**3,930**	**1,634**	**12,680**
Expected credit losses (RMB'000)	**9**	**503**	**817**	**1,329**
As at 31 December 2021				
Expected credit loss rate (%)	0.1	12.0	50.0	10.5
Gross carrying amount (RMB'000)	4,882	2,866	1,193	8,941
Expected credit losses (RMB'000)	3	344	596	943

19. TRADE RECEIVABLES (CONTINUED)

Group B

		Past due		
	Current	Less than one year	Over one year	Total
As at 31 December 2022				
Expected credit loss rate (%)	**—**	**—**	**—**	**—**
Gross carrying amount (RMB'000)	**78,060**	**—**	**—**	**78,060**
Expected credit losses (RMB'000)	**—**	**—**	**—**	**—**
As at 31 December 2021				
Expected credit loss rate (%)	—	—	—	—
Gross carrying amount (RMB'000)	64,698	—	—	64,698
Expected credit losses (RMB'000)	—	—	—	—

Total

		Past due		
	Current	Less than one year	Over one year	Total
As at 31 December 2022				
Gross carrying amount (RMB'000)	**85,176**	**3,930**	**1,634**	**90,740**
Expected credit losses (RMB'000)	**9**	**503**	**817**	**1,329**
As at 31 December 2021				
Gross carrying amount (RMB'000)	69,580	2,866	1,193	73,639
Expected credit losses (RMB'000)	3	344	596	943

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2022 RMB'000	2021 RMB'000
Prepayments	**83,890**	71,174
Deposits and other receivables (note (a))	**78,411**	47,304
Amounts due from employees	**1,689**	1,630
	163,990	120,108
Less:		
Portion classified as non- current assets	**(28,407)**	(10,814)
	135,583	109,294

Note:

(a) The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2022 and 2021, the loss allowance was assessed to be not material.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	2022 RMB'000	2021 RMB'000
Derivative financial instruments, at fair value	(a)	**5,420**	3,207
Other unlisted investments, at fair value	(b)	**30,012**	—
		35,432	3,207

As at 31 December 2022, the net fair value gain in respect of the Group's financial instruments at fair value through profit or loss recognised amounted to RMB1,093,000 (2021: loss of RMB4,755,000).

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(a) Derivative financial instruments

- On 28 February 2021, the Group acquired a 100% equity interest in Ningbo Haishu Gushengtang Liuting TCM Out-patient Department Co., Ltd ("寧波海曙固生堂柳汀中醫門診部有限公司", "**Ningbo Liuting**") from the previous shareholder. According to the contractual terms, the Group agreed with the previous shareholder to adjust the considerations based on the change of revenue impacted by the loss of experts after the acquisition. The contingent consideration was recognised at the amount of RMB932,000 and the contingent consideration has been settled as at 31 December 2022.

- On 30 April 2021, the Group acquired a 100% equity interest in Fuzhou Xiulichun TCM Out-patient Co., Ltd. ("福州袖裏春中醫門診有限公司", "**Fuzhou Xiulichun**") from the previous shareholder. According to the contractual terms, the Group agreed with the previous shareholder to adjust the considerations based on the change of revenue impacted by the loss of experts after the acquisition. The contingent consideration was recognised at the amount of RMB309,000 and the contingent consideration has been settled as at 31 December 2022.

- On 30 April 2021, the Group acquired a 100% equity interest in Shanghai Wanlian from the previous shareholder. According to the contractual terms, the Group agreed with the previous shareholder to adjust the considerations based on the status of the achievement of target revenue in the recent years after the acquisition. The contingent consideration was recognised at the amount of RMB294,000 and the contingent consideration has not been settled as at 31 December 2022.

- On 30 June 2021, the Group acquired a 100% equity interest in Beijing Gushengtang Panjiayuan TCM Hospital Co., Ltd. (北京固生堂潘家園中醫醫院有限公司, formerly known as Beijing Zhonghai TCM Hospital Co., Ltd. ("北京中海醫院有限公司", "**Beijing Zhonghai**")) from the previous shareholder. According to the contractual terms, the Group agreed with the previous shareholder to adjust the considerations based on the change of revenue impacted by the loss of experts after the acquisition. The contingent consideration was recognised at the amount of RMB373,000 and the contingent consideration has not been settled as at 31 December 2022.

- On 30 November 2022, the Group acquired a 93% equity interest in Hangzhou Datong Traditional Chinese Medicine Out-patient Department Co., Ltd. ("杭州大同中醫門診部有限公司", "**Hangzhou Datong**") from the previous shareholder. According to the contractual terms, the Group agreed with the previous shareholders to adjust the consideration based on the status of Hangzhou Datong's achievement of target revenue in the recent years after the acquisition. The contingent consideration was recognised at the amount of RMB2,896,000 and the contingent consideration has not been settled as at 31 December 2022.

The fair value of the contingent consideration was measured through the Scenario-Based Method. The assumptions of the expected payment date and forecasted revenue and profit are based on the best estimation of management.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(b) Other unlisted investments, at fair value

The unlisted investments were financial products issued by investment management companies in Mainland China. They were classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

22. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	2022 RMB'000	2021 RMB'000
Cash and bank balances	**684,330**	634,271
Non-pledged time deposits with original maturity of less than three months when acquired	**310,000**	400,000
	994,330	1,034,271
Less: Restricted cash	**—**	(3,567)
Cash and cash equivalents	**994,330**	1,030,704
Denominated in:		
RMB (note)	**935,646**	834,639
USD	**8,240**	1,888
HK$	**50,444**	194,177
	994,330	1,030,704

Note:

The RMB is not freely convertible into other currencies, however, 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.

23. TRADE AND BILLS PAYABLES

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

	2022 RMB'000	2021 RMB'000
Within three months	**114,621**	118,508
Three months to one year	**38,379**	26,940
Over one year	**11,305**	15,884
	164,305	161,332

Trade and bills payables are non-interest-bearing and have a credit term ranging from one to six months after the invoice date, extending to longer periods for those long-standing suppliers.

The fair values of trade and bills payables as at the end of each of the reporting periods approximated to their corresponding carrying amounts due to their relatively short maturity terms.

24. OTHER PAYABLES AND ACCRUALS

	Notes	2022 RMB'000	2021 RMB'000
Other tax payable		**14,694**	8,630
Accruals		**7,164**	31,376
Contract liabilities	(a)	**26,082**	38,834
Payable for Incentive Arrangement (note 28(b))		**56,062**	44,638
Salaries and welfare payable		**84,089**	65,533
Other payables	(b)	**167,929**	132,244
		356,020	321,255
Less:			
Non-current portion		**(56,062)**	(44,638)
Current portion		**299,958**	276,617

24. OTHER PAYABLES AND ACCRUALS (CONTINUED)

Notes:

(a) Details of contract liabilities as at the end of the reporting period are as follows:

	2022 RMB'000	2021 RMB'000
Healthcare solutions	**26,082**	38,834

Contract liabilities include short-term advances received for healthcare solutions. The decrease in contract liabilities as at 31 December 2022 was primarily due to the decreased prepayments made by the members of the Group enrolled in the membership program.

(b) Other payables are non-interest-bearing and would be settled in a period ranging from three months to over one year.

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2022			2021		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loan -unsecured	**4.04–4.50**	**2022**	**9,508**	4.04–4.09	2022	9,508
Other borrowing	**6.00**	**2022**	**8,706**	6.00	2022	7,970
			18,214			17,478
Non-current						
Bank loans-unsecured	**4.04–4.50**	**2024–2025**	**9,428**	4.20–5.60	2023–2024	19,017
Other borrowing	**6.00**	**2023–2029**	**43,529**	6.00	2023–2029	47,818
			52,957			66,835
			71,171			84,313

25. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

	2022 RMB'000	2021 RMB'000
Analysed into:		
Bank loans:		
Within one year or on demand	**9,508**	9,508
In the second year	**9,428**	9,508
In the third to fifth years, inclusive	**—**	9,509
	18,936	28,525
Other borrowing:		
Within one year or on demand	**8,706**	7,970
In the second year	**8,706**	7,970
In the third to fifth years, inclusive	**26,118**	23,909
Beyond five years	**8,705**	15,939
	52,235	55,788
	71,171	84,313

Notes:

(a) Except for other borrowings, which are denominated in USD, all interest-bearing bank loans are in RMB.

(b) There was no asset pledged as security for interest-bearing bank borrowings (2021: Nil).

(c) The Group's bank and other facilities amounted to RMB254,115,000 (2021: RMB569,393,000), of which RMB98,171,000 (2021: RMB92,282,000) had been utilized as at 31 December 2022.

26. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Impairment provisions RMB'000	Tax losses available for offsetting against future taxable profits RMB'000	Unrealised profits arising from intra-group transaction RMB'000	Total RMB'000
1 January 2022	**8,918**	**25,874**	**5,372**	**40,164**
Deferred tax credited to profit or loss during the year (note 10)	**4,106**	**(13,141)**	**4,646**	**(4,389)**
Gross deferred tax assets at 31 December 2022	**13,024**	**12,733**	**10,018**	**35,775**
1 January 2021	6,812	11,404	5,160	23,376
Deferred tax credited to profit or loss during the year (note 10)	2,106	14,470	212	16,788
Gross deferred tax assets at 31 December 2021	8,918	25,874	5,372	40,164

26. DEFERRED TAX (CONTINUED)

Deferred tax liabilities

	Fair value adjustments arising from acquisition of subsidiaries RMB'000
1 January 2022	6,187
Deferred tax credited to profit or loss during the year (note 10)	(732)
Gross deferred tax at 31 December 2022	5,455
1 January 2021	4,322
Acquisition of a subsidiary (note 31)	2,513
Deferred tax credited to profit or loss during the year (note 10)	(648)
Gross deferred tax at 31 December 2021	6,187

Deferred tax assets of RMB3,374,000 (2021: RMB11,460,000) have not been recognised in respect of these losses as they have arisen in 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 utilized for the years ended 31 December 2022.

27. SHARE CAPITAL

Shares

	2022	2021
Authorised:		
264,430,287 (2021: 264,430,287) ordinary shares of USD0.0001 each	**26**	26
	RMB'000	RMB'000
Issued and fully paid:		
230,396,458 (2021: 230,396,458) ordinary shares of USD0.0001 (equivalent to RMB0.0006) each	**147**	147

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

	Number of ordinary shares in issue RMB'000	Share capital RMB'000	Shares held for share award schemes RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2021	78,000,000	–	–	–	–
Issuance of ordinary shares (note (a))	9,130,456	6	–	191,313	191,319
Issuance of ordinary shares (note (b))	9,823,948	6	–	127,941	127,947
Issuance of ordinary shares (note (c))	809,582	1	–	9,999	10,000
Issuance of ordinary shares (note (d))	1,927,808	1	–	20,175	20,176
Share options exercised (note (e))	17,191,534	11	–	98,618	98,629
Issue of shares in connection with the IPO (note f)	27,878,000	18	–	660,447	660,465
Share issue expenses	–	–	–	(46,322)	(46,322)
Transfer from convertible redeemable preferred shares (note (g))	85,635,130	104	–	2,024,484	2,024,588
At 31 December 2021 and 1 January 2022	230,396,458	147	–	3,086,655	3,086,802
Shares held for share award schemes (note 28(c))	–	–	(20,121)	–	(20,121)
At 31 December 2022	230,396,458	147	(20,121)	3,086,655	3,066,681

27. SHARE CAPITAL (CONTINUED)

Shares (continued)

Notes:

(a) Pursuant to a series of share subscription agreements dated 27 April 2021, 9,130,456 shares were issued and allotted by the Company to various BVI holding platforms held by employees and external investors. Besides 1,970,443 shares were issued to external investors at the issue price of RMB18.27 per share, the remaining 7,160,013 shares were issued to employees at an 85% discounted price of RMB15.53 per share. The total cash consideration received by the Company is RMB147,571,000. For the detailed analysis please refer to note 28(d) to these financial statements.

(b) On 27 April 2021, 9,823,948 ordinary Shares were issued and allotted by the Company to various BVI holding platforms of certain external investors ("**External Investors**") at various share prices ranging from RMB8.58 to RMB19.99 per share as part of the corporate restructuring of the Company in exchange for certain equity interest in Guangdong Gushengtang held by the relevant External Investors, with total consideration of RMB127,947,000.

(c) On 27 April 2021, 809,582 shares of par value of USD0.0001 each, were issued by the Company to Hua Jinming (an independent third party) who converted the convertible loan to ordinary share.

(d) On 27 April 2021, 1,927,808 ordinary shares were issued and allotted by the Company to various BVI holding platforms of certain employees and consultants of the Company at the issue prices arranging from RMB10.73 to RMB11.94 each, with total consideration of RMB20,176,000.

(e) On 27 April 2021, the subscription rights attaching to 17,191,534 share options were exercised at the subscription price of USD0.35 per share, resulting in the issue of 17,191,534 ordinary shares for a total cash consideration, before expenses, of USD6,017,000 (equivalent to approximately RMB36,754,000). An amount of RMB61,875,000 was transferred from the share option reserve to the share premium upon the exercise of the share options.

(f) In connection with the IPO, 27,878,000 ordinary shares of a par value of US$0.0001 each were issued at a price of HK$29.00 per share for a total cash consideration, before deducting the underwriting fees and commissions and other estimated listing expenses, of approximately HK$808,462,000 (approximately RMB660,465,000).

(g) All convertible redeemable preferred shares were converted into ordinary shares upon the completion of the IPO.

Share options and share award

Details of the Company's share option scheme and share award scheme as well as the share options and award shares issued under these schemes are included in note 28 to these financial statements.

28. SHARE BASED PAYMENT SCHEMES

The amounts recognised in profit or loss in relation to share based payment schemes are as follows:

	2022 RMB'000	2021 RMB'000
Share options schemes (note (a))	**17,255**	127,656
Incentive Arrangement (note (b))	**1,284**	5,842
Expenses for awarded shares (note (d))	**—**	43,749
Total amount recognised in profit or loss	**18,539**	177,247
Including:		
Directors' remuneration (note 8)	**14,983**	47,279
Employee benefit expense (excluding directors' remuneration)	**2,272**	124,126
Cost of provision of healthcare solutions	**1,284**	5,842
	18,539	177,247

(a) Share option schemes

2022 Share Option Scheme

The Company adopted a new share option scheme (the "**2022 Share Option Scheme**"), the purpose of which is to provide incentives and/or rewards to eligible participants for their contributions to, and continuing efforts to promote the interests of, the Group and to enable the Group to recruit and retain talents.

Eligible participants under the 2022 Share Option Scheme include (i) any director and employee of the Company or any other member of the Group; and (ii) certain service providers who the board of directors (the "**Board**") considers, in its sole discretion, have the below eligibility. Subject to the terms of the 2022 Share Option Scheme, the 2022 Share Option Scheme shall be valid and effective for a period of 10 years commencing on the adoption date, after which period no further options shall be granted. The 2022 Share Option Scheme became effective on 5 December 2022 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The exercise price of share options is determined by the Board and notified to an eligible participant and shall be at least the highest of: (a) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of the share options; (b) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of offer of the share options; and (c) the nominal value of a Company's share.

28. SHARE BASED PAYMENT SCHEMES (CONTINUED)

(a) Share option schemes (continued)

Pre-IPO Share Option Scheme

The Company has adopted a pre-initial public offering share option scheme (the "**Pre-IPO Share Option Scheme**") on 31 March 2021, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's business or generate superior returns to the shareholders through their outstanding performance.

The Pre-IPO Share Option Schemes expired on 20 November 2021 and the exercise price for each option is RMB15.53 or USD0.35.

2015 Equity Incentive Plan

The Company has adopted a share option scheme (the "**2015 Equity Incentive Plan**") on 27 April 2015, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's business or generate superior returns to the shareholders through their outstanding performance.

The 2015 Equity Incentive Plan shall be in force for 10 years from 27 April 2015, unless otherwise cancelled or amended. Furthermore, the exercise price for each share under the 2015 Equity Incentive Plan is USD0.35.

28. SHARE BASED PAYMENT SCHEMES (CONTINUED)

(a) Share option schemes (continued)

2015 Equity Incentive Plan (continued)

(i) Movements in share options

A summary of movements in the Company's share options outstanding and their related weighted average exercise prices under the share options schemes is as follows:

	The 2015 Equity Incentive Plan		Pre-IPO Option Scheme		2022 Share Option Scheme		
	Average exercise price RMB'000	Number of options RMB'000	Average exercise price RMB'000	Number of options RMB'000	Average exercise price RMB'000	Number of options RMB'000	Total number of options RMB'000
At 1 January 2021	USD0.35	17,191,534	–	–	–	–	17,191,534
Granted for the year	–	–	RMB10.0	16,382,286	–	–	16,382,286
Exercised for the year	USD0.35	(17,191,534)	–	–	–	–	(17,191,534)
At 31 December 2021 and 2022	–	–	RMB10.0	16,382,286	–	–	16,382,286

During the year, there was no options (2021: 11,330,176) were granted to any executive director of the Company under the above share option schemes.

No share options was exercised for the year and no share option reserve related to the forfeited shares that have been vested was transferred to retained profits during the year (2021: nil).

28. SHARE BASED PAYMENT SCHEMES (CONTINUED)

(a) Share option schemes (continued)

2015 Equity Incentive Plan (continued)

(ii) Outstanding share options

The was no outstanding share options under the 2015 Equity Incentive Plan and 2022 Share Option Scheme as at 31 December 2022 and 2021. The exercise prices and exercise periods of the share options outstanding under the Pre-IPO Share Option Scheme as at 31 December 2022 and 2021 are as follows:

Number of options as at 31 December			
2022 RMB'000	2021 RMB'000	**Exercise price**	Exercise period
818,711	818,711	RMB15.53	2021/12/10 to 2031/12/10
8,815,348	8,815,348	RMB15.53	Within 10 years upon the date of vesting
1,696,117	1,696,117	USD0.35	2021/12/10 to 2031/12/10
3,957,606	3,957,606	USD0.35	2021/12/10 to 2031/12/10
1,094,504	1,094,504	USD0.35	Within 10 years upon the date of vesting
16,382,286	16,382,286		

(iii) Fair value of options

The directors of the Company used the Binomial Model to determine the fair value of the share options as at the respective grant dates, which is to be expensed over the relevant vesting period. There was no additional share options granted in the year ended 31 December 2022, and the weighted average fair value of share options granted during the year ended 31 December 2021 was RMB10.0 per share.

Other than the exercise prices disclosed above, significant judgement on parameters, such as the dividend yield, expected volatility, risk-free interest rate, and expected volatility, is required to be made by the directors in applying the Binomial Model, which are summarised below:

	2021
Dividend yield (%)	0.00
Expected volatility (%)	47.42
Risk-free interest rate (%)	2.98

During the year, the Group has recognised a share option expense related to the share option schemes of RMB17,255,000 (2021: RMB127,656,000) in total.

28. SHARE BASED PAYMENT SCHEMES (CONTINUED)

(b) Cash-settled Share-based Payment Arrangements (the "Incentive Arrangement")

In order to enhance the loyalty and motivate high performing staff and doctors, the Group adopted the Incentive Arrangement, which allows the Group's subsidiaries to issue phantom shares to the eligible participants, including doctors and employees (the "**Eligible Participants**"). The Eligible Participants should actively join in the business operation and building their own teams. If certain conditions are met, the Eligible Participants have the option to request the Group's subsidiaries commit to purchase back the phantom shares during the vesting period. The options vested and shall be settled in cash only if the performance of the target clinic in a period of 2 to 3 years is met. The Group accounts for the Incentive Arrangement as a cash-settled plan.

The phantom shares can be exercised up to eight years after the investment and therefore, the contractual term of the share is eight years. The liability for the options is measured, initially and at the end of each reporting period until settled, at the fair value of the phantom shares, by applying the discounted cash flow model, taking into account the terms and conditions on which the options were granted, and the extent to which the doctors have rendered services to date.

Movements in shares

The following shares were outstanding under the Incentive Arrangement during the years ended 31 December 2022 and 2021:

	Number of share	Weighted average fair value RMB'000	Fair value of shares RMB'000
At 1 January 2021	40	802.7	32,106
Granted during the year	15	446.0	6,690
Remeasurement	—		5,842
At 31 December 2021 and 1 January 2022	**55**	**811.6**	**44,638**
Granted during the year	**27**	**397.8**	**10,740**
Settled during the year	**(2)**	**300.0**	**(600)**
Remeasurement	**—**	**1,284**	
At 31 December 2022	**80**	**700.8**	**56,062**

The carrying amount of the liability relating to the phantom shares, including in the non-current other payables, at 31 December 2022 were RMB56,062,000 (2021: RMB44,638,000).

28. SHARE BASED PAYMENT SCHEMES (CONTINUED)

(b) Cash-settled Share-based Payment Arrangements (the "Incentive Arrangement") (continued)

Fair value of shares

The fair value of the phantom shares was measured through the application of the discounted cash flow method to develop the future values of the individual store operation into a present value as of the valuation date. A Seasonal ARIMA model is adopted to forecast the future revenue of each medical institution based on the characteristics of the seasonal time series of historical records for revenue. The discount rate used is the weighted average of the estimated rate of return required by equity and debt providers for an investment of this type. The required return rate from equity and debt holders relates to perceived risks. The following table lists the input to the model used:

	2022	2021
Discount rate (%)	**10.62**	11.13

(c) Share Award Schemes

The Company adopted two share award schemes for existing shares ("**Share Award Scheme (Existing Shares)**") and new shares ("**Share Award Scheme (New Shares)**", collectively referred as "**Share Award Schemes**")), respectively during the year ended 31 December 2022.

Share Award Scheme (Existing Shares)

The purpose of the Share Award Scheme (Existing Shares) is to recognise and reward eligible participants, which includes (i) any physician providing online or offline healthcare services to the Group, who is not a director or employee of the Company or any other member of the Group and (ii) any consultant, who the administrator considers, in its sole discretion, for their contribution to the Group, to attract best available personnel to provide service to the Group, and to provide additional incentives to them to remain with and further promote the success of the Group's business.

Pursuant to terms of the Share Award Scheme (Existing Shares), the Share Award Scheme (Existing Shares) shall be valid and effective for a period of 10 years commencing on the date of approval of the Share Award Scheme (Existing Shares) by the Board on 9 September 2022. Shares will be acquired by the independent trustee ("**Trustee**") of the Share Award Scheme (Existing Shares) through on-market transactions at the prevailing market price or at price within a specific price range determined at the sole discretion of the Board out of the funds contributed by the Company and be held in trust for the relevant participants in accordance with the provisions of the Share Award Scheme.

28. SHARE BASED PAYMENT SCHEMES (CONTINUED)

(c) Share Award Schemes (continued)

Share Award Scheme (New Shares)

The purpose of the Share Award Scheme (New Shares) is to provide incentives and/or rewards to eligible participants (including (i) any management participant; and (ii) any service provider who the administrator considers) for their contributions to, and continuing efforts to promote the interests of, the Group and to enable the Group to recruit and retain talents. Pursuant to the Share Award Scheme (New Shares), the awards will be satisfied by new shares to be allotted and issued by the Company under the specific mandate to be granted by the shareholders at the extraordinary general meeting of the Company. The Company has also appointed the Trustee for the purpose of administration of the Share Award Scheme (New Shares).

During the year ended 31 December 2022, 678,600 ordinary shares of the Company on the Stock Exchange of Hong Kong Limited were purchased by the Trustee for the Share Award Scheme (Existing Shares) at the consideration of HK$22,091,000 (approximately to RMB20,121,000).

Details of the Share Award Schemes have been set out in the announcement of the Company dated 12 September 2022 and 7 December 2022, respectively.

No share awards have been granted under the Share Award Schemes during the year.

(d) Share Awards

On 31 March 2021, the Company granted 7,160,013 ordinary shares ("**Awarded Shares**") to certain employees of the Group, with the purpose of providing incentives to eligible participants who generate superior returns to the shareholders through their outstanding performance. The eligible participants include any directors, senior management and employees of the Company and its subsidiaries, and consultant providing services to the Company, who the Board considers, in its sole discretion, have contributed to the Group. The Awarded Shares are exercisable at a subscription price of RMB15.53 each. The Awarded Shares are vested upon the grant without any other performance target requirement. As at 31 December 2022, all awarded shares were exercised.

The fair value of the Award shares of RMB21.64 per share, is measured at the fair value of the ordinary shares on the grate date, taking into consideration the DLOM of 10.93%. The difference, between the total fair value of the Awarded Shares of RMB154,943,000 and the consideration that employees have to pay to the Company of RMB111,195,000, was treated as equity-settled share-based payment expense of RMB43,749,000, charged to profit or loss, immediately when the Awarded Shares were granted, with a corresponding increase in share premium.

29. RESERVES

The amounts of the Group's reserves and the movements therein for the reporting period are presented in the consolidated statement of changes in equity.

Share premium

The share premium account represents the amount paid by shareholders for capital injection in excess of its nominal value.

Capital reserve

The capital reserve of the Group represents the capital contributions from the then equity holders of the Group's subsidiaries, after elimination of investments in subsidiaries.

Statutory surplus reserve

In accordance with the PRC Company Law and the articles of association of the subsidiaries established in the PRC, the Group is required to appropriate 10% of its net profits after tax, as determined under the Chinese Accounting Standards, to the statutory surplus reserves until the reserve balance reaches 50% of its registered capital. Subject to certain restrictions set out in the relevant PRC regulations and in the articles of association of the Group, the statutory surplus reserves may be used either to offset losses, or to be converted to increase the share capital of the subsidiaries provided that the balance after such conversion is not less than 25% of the registered capital of them. The reserve cannot be used for purposes other than those for which it is created and is not distributable as cash dividends.

Share option reserve

The share option reserve comprises the fair value of equity-settled share-based payment granted, detailed disclosed in note 28(a) to these financial statements. The amount will either be transferred to the share premium account when the related options are exercised or be transferred to retained profits should the related options expire or be forfeited.

Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies whose functional currency is not RMB. The reserve is dealt with in accordance with the accounting policy set out in note 2.4 to these financial statements.

Other reserve

The other reserve represents any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid for acquisition of non-controlling interests in subsidiaries. Details of the movements in other reserve are set out in the consolidated statement of changes in equity.

30. PROVISIONS

Our provisions consist of probable losses for rent breach.

	2022 RMB'000	2021 RMB'000
At the beginning of the year	**121**	121
Reversal of unutilised amounts	**(121)**	—
At the end of the year	**—**	121

31. BUSINESS COMBINATIONS

2022

(a) Acquisition of Beijing Guozong

On 31 May 2022, the Group acquired a 100% equity interest in Beijing Guozong Jishi Traditional Chinese Medicine Hospital Co., Ltd. (北京國宗濟世中醫醫院有限公司, "**Beijing Guozong**"), an unlisted company, from an independent third party at a total cash consideration of RMB53,720,000. Beijing Guozong mainly engaged in the provision of Chinese medicine services in Mainland China. The acquisition was part of the Group's strategy to expand its market share in Chinese medicine healthcare services.

(b) Acquisition of Hangzhou Datong

On 30 November 2022, the Group acquired a 93% equity interest in Hangzhou Datong Traditional Chinese Medicine Out-patient Department Co., Ltd. (杭州大同中醫門診部有限公司, "**Hangzhou Datong**"), an unlisted company, from an independent third party. Hangzhou Datong is mainly engaged in the provision of authentic Chinese medicine services in Mainland China. The acquisition was part of the Group's strategy to expand its market share in Chinese medicine services. The acquisition was satisfied by cash of RMB83,700,000 at the acquisition date. Furthermore, a contingent consideration, depending on the change of revenue impacted by the loss of experts after the acquisition was recognised, with the detailed information disclosed in note 21 to these consolidated financial statements and the fair value of contingent consideration recognised on the acquisition date was RMB2,896,000.

31. BUSINESS COMBINATIONS (CONTINUED)

2022 (continued)

(b) Acquisition of Hangzhou Datong (continued)

The fair values of the identifiable assets and liabilities of the subsidiaries acquired as at the dates of acquisition were as follows:

	Note	Fair value recognised on acquisition RMB'000
Inventories		4,394
Trade receivables		9,796
Prepayments, other receivables and other assets		2,571
Cash and cash equivalents		9,233
Trade payables		(15,746)
Other payables and accruals		(3,487)
Total identifiable net liabilities at fair value		6,761
Non-controlling interests		(294)
Goodwill on acquisition	16	128,057
Total consideration		134,524
Satisfied by:		
Cash		137,420
Contingent consideration		(2,896)
		134,524

31. BUSINESS COMBINATIONS (CONTINUED)

2022 (continued)

(b) Acquisition of Hangzhou Datong (continued)

An analysis of the cash flows in respect of the acquisition of the subsidiaries is as follows:

	2022 RMB'000
Cash considerations	137,420
Less: Cash to be paid in coming years	(67,752)
Cash and cash equivalents acquired	(9,233)
	60,435
Add: Cash paid in 2022 for acquisition in previous years	37,732
Prepayment in 2022 for acquisition in the next year	11,292
Net outflow of cash and cash equivalents included in cash flows from investing activities	109,459

Since the acquisition, the subsidiaries as mentioned above contributed RMB32,123,000 to the Group's revenue and a net loss of RMB1,465,000 to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022. Had the combination taken place at 1 January 2022, the revenue and loss of the Group would have been RMB108,134,000 and RMB7,689,000, respectively.

2021

(c) Acquisition of Shanghai Shenhua

On 1 January 2021, the Group acquired a 100% equity interest in Shanghai Pudong New District Shenhua Chinese Medicine Clinics Co., Ltd ("上海浦東新區神華中醫門診有限公司", "**Shanghai Shenhua**"), an unlisted company, from an independent third party. It is mainly engaged in the provision of authentic Chinese medicine services in Mainland China. The acquisition was part of the Group's strategy to expand its market share in Chinese medicine services. The acquisition was satisfied by cash of RMB8,148,000 in total at the acquisition date.

31. BUSINESS COMBINATIONS (CONTINUED)

2021 (continued)

(d) Acquisition of Beijing Kunlun

On 13 January 2021, the Group acquired a 100% equity interest in Beijing Kunlun Hospital Co., Ltd. ("北京市昆侖醫院有限公司", "**Beijing Kunlun**"), an unlisted company, from an independent third party. It is mainly engaged in the provision of authentic Chinese medicine services in Mainland China. The acquisition was part of the Group's strategy to expand its market share in Chinese medicine services. The acquisition was satisfied by cash of RMB5,000,000 at the acquisition date.

(e) Acquisition of Ningbo Liuting

On 28 February 2021, the Group acquired a 100% equity interest in Ningbo Liuting, an unlisted company, from an independent third party. It is mainly engaged in the provision of authentic Chinese medicine services in Mainland China. The acquisition was part of the Group's strategy to expand its market share in Chinese medicine services. The acquisition was satisfied by cash of RMB9,334,000 at the acquisition date. Furthermore, a contingent consideration, depending on the change of revenue impacted by the loss of experts after the acquisition was recognised, with the detailed information disclosed in note 21 to these consolidated financial statements and the fair value of contingent consideration recognised on the acquisition date was RMB932,000.

(f) Acquisition of Fuzhou Xiulichun

On 30 April 2021, the Group acquired a 100% equity interest in Fuzhou Xiulichun, an unlisted company, from an independent third party. It is mainly engaged in the provision of authentic Chinese medicine services in Mainland China. The acquisition was part of the Group's strategy to expand its market share in Chinese medicine services. The acquisition was satisfied by cash of RMB15,600,000 at the acquisition date. Furthermore, a contingent consideration, depending on the change of revenue impacted by the loss of experts after the acquisition was recognised, with the detailed information disclosed in note 21 to these consolidated financial statements and the fair value of contingent consideration recognised on the acquisition date was RMB309,000.

(g) Acquisition of Lianjiang Xiulichun

On 30 April 2021, the Group acquired a 100% equity interest in Lianjiang Xiulichun TCM Out-patient Department Co., Ltd. ("連江袖裏春中醫門診有限公司", "**Lianjiang Xiulichun**"), an unlisted company, from an independent third party. It mainly engaged in the provision of authentic Chinese medicine services in Mainland China. The acquisition was part of the Group's strategy to expand its market share in Chinese medicine services. The acquisition was satisfied by cash of RMB3,000,000 at the acquisition date.

31. BUSINESS COMBINATIONS (CONTINUED)

2021 (continued)

(h) Acquisition of Shanghai Wanlian

On 30 April 2021, the Group acquired a 100% equity interests in Shanghai Wanlian, an unlisted company, from an independent third party. It is mainly engaged in the provision of authentic Chinese medicine services in Mainland China. The acquisition was part of the Group's strategy to expand its market share in Chinese medicine services. The acquisition was satisfied by cash of RMB33,106,000 at the acquisition date. Furthermore, a contingent consideration, depending on the achievement of target revenue in the years after the acquisition was recognised, with the detailed information disclosed in note 21 to these consolidated financial statements and the fair value of contingent consideration recognised on the acquisition date was RMB294,000.

(i) Acquisition of Beijing Zhonghai

On 30 June 2021, the Group acquired a 100% equity interest in Beijing Zhonghai, an unlisted company, from an independent third party. It mainly engaged in the provision of authentic Chinese medicine services in Mainland China. The acquisition was part of the Group's strategy to expand its market share in Chinese medicine services. The acquisition was satisfied by cash of RMB50,485,000 at the acquisition date. Furthermore, a contingent consideration, depending on the change of revenue impacted by the loss of experts after the acquisition was recognised, with the detailed information disclosed in note 21 to these consolidated financial statements and the fair value of contingent consideration recognised on the acquisition date was RMB373,000.

31. BUSINESS COMBINATIONS (CONTINUED)

2021 (continued)

The fair values of the identifiable assets and liabilities of the subsidiaries acquired as at the dates of acquisition were as follows:

	Note	Fair value recognised on acquisition RMB'000
Other intangible assets	14	10,050
Inventories		990
Trade receivables		7,907
Prepayments, other receivables and other assets		4,336
Cash and cash equivalents		5,176
Trade payables		(26,613)
Other payables and accruals		(20,073)
Deferred tax liabilities	28	(2,513)
Total identifiable net liabilities at fair value		(20,740)
Goodwill on acquisition	16	143,505
Total consideration		122,765
Satisfied by:		
Cash		124,673
Contingent consideration		(1,908)
		122,765

31. BUSINESS COMBINATIONS (CONTINUED)

2021 (continued)

An analysis of the cash flows in respect of the acquisition of the subsidiaries is as follows:

	2021 RMB'000
Cash considerations	124,673
Less: Prepayment in previous years	(5,625)
Cash to be paid in coming years	(42,620)
Cash and cash equivalents acquired	(5,176)
	71,252
Add: Cash paid in 2021 for acquisition in previous years	62,166
Net outflow of cash and cash equivalents included in cash flows from investing activities	133,418

Since the acquisition, the subsidiaries as mentioned above contributed RMB81,444,000 to the Group's revenue and a net gain of RMB979,000 to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021. Had the combination taken place at 1 January 2021, the revenue and loss of the Group would have been RMB126,807,000 and RMB7,089,000, respectively.

32. PLEDGE OF ASSETS

There was no asset pledged as security for interest-bearing bank and other borrowings as at 31 December 2022 and 2021.

33. COMMITMENTS

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

	2022 RMB'000	2021 RMB'000
Contracted, but not provided for Leasehold improvements and equipment	**5,853**	5,230

34. RELATED PARTY TRANSACTIONS AND BALANCES

The directors of the Company are of the view that the following parties/companies are related parties that had material transactions or balances with the Group during the reporting period.

(a) Name and relationship of related parties

Name	Relationship
Mr. Tu Zhiliang	The executive director of the Company
Ms. Li Jie	Key management personnel of the Group
Mr. Yan Jun	Key management personnel of the Group
Mr. Qian Wei	Key management personnel of the Group
Mr. Zhang Yuwen	Key management personnel of the Group
Mr. Li Yanhui	Key management personnel of the Group
Ms. Chen Zhaoyuan	Key management personnel of the Group
Ms. Zhang Qiumin	Key management personnel of the Group

(b) Transaction and balances with related parties

During the years ended 31 December 2022 and 2021, there were no significant transactions and outstanding balances with related parties.

34. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(c) Compensation of key management personnel and related parties of the Group:

Details of the compensation of key management personnel of the Group are disclosed as follows:

	2022 RMB'000	2021 RMB'000
Short term employee benefits	8,398	10,979
Share-based payment expense	17,255	144,995
	25,653	155,974

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transaction:

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB92,388,000 and RMB92,259,000 (2021: RMB127,772,000 and RMB127,718,000), respectively, in respect of lease arrangements for office buildings.

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank loans RMB'000	Lease liabilities RMB'000
As at 1 January 2022	84,313	261,052
Changes from financing cash flows:		
New bank loans	999	—
Repayment of bank loans	(19,293)	—
Interest paid	(4,571)	(13,044)
Capital element of lease liabilities	—	(68,840)
Other changes:		
New lease liabilities arising from additional leases during the year	—	92,259
Covid-19-related rent concessions from lessors	—	(4,355)
Interest expenses	4,571	13,044
Exchange realignment	5,152	—
As at 31 December 2022	71,171	280,116

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

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

	Interest-bearing bank loans RMB'000	Lease liabilities RMB'000	Convertible redeemable preferred shares RMB'000	Bonds payable RMB'000
As at 1 January 2021	145,138	198,174	1,204,204	329,013
Changes from financing cash flows:				
New bank loans	112,466	—	—	—
Issuance of Preferred Shares	—	—	243,740	—
Repayment of bank loans	(173,291)	—	—	—
Repayment of bond payables	—	—	—	(329,013)
Interest paid	(8,967)	(12,335)	—	(7,101)
Capital element of lease liabilities	—	(64,840)	—	—
Other changes:				
New lease liabilities arising from additional leases during the year	—	127,718	—	—
Fair value losses on the Preferred Shares	—	—	409,553	—
Conversion into Preferred Shares from convertible bonds	—	—	208,071	—
Interest expenses	8,967	12,335	—	7,101
Conversion into ordinary shares upon the completion of the IPO	—	—	(2,024,588)	—
Exchange realignment	—	—	(40,980)	—
As at 31 December 2021	84,313	261,052	—	—

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2022 RMB'000	2021 RMB'000
Within operating activities	**4,045**	849
Within financing activities	**81,884**	77,175
	85,929	78,024

36. FINANCIAL INSTRUMENTS BY CATEGORY

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

At 31 December 2022

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit or loss RMB'000	Total RMB'000
Financial assets included in prepayments, deposits and other receivables	66,246	—	66,246
Financial assets at fair value through profit or loss	—	35,432	35,432
Trade receivables	89,411	—	89,411
Cash and cash equivalents	994,330	—	994,330
	1,149,987	35,432	1,185,419

36. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

At 31 December 2022 (continued)

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	**164,305**
Financial liabilities included in other payables and accruals	**167,929**
Lease liabilities	**280,116**
Interest-bearing bank loans and other borrowings	**71,171**
	683,521

At 31 December 2021

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit or loss RMB'000	Total RMB'000
Financial assets included in prepayments, deposits and other receivables	46,842	—	46,842
Financial assets at fair value through profit or loss	—	3,207	3,207
Trade receivables	72,696	—	72,696
Restricted cash	3,567	—	3,567
Cash and cash equivalents	1,030,704	—	1,030,704
	1,153,809	3,207	1,157,016

36. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

At 31 December 2021 (continued)

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	161,332
Financial liabilities included in other payables and accruals	132,246
Lease liabilities	261,052
Interest-bearing bank loans and other borrowings	84,313
	638,943

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:

	Carrying amounts		Fair values	
	2022 RMB'000	2021 RMB'000	**2022 RMB'000**	2021 RMB'000
Financial assets				
Financial assets at fair value through profit or loss	**35,432**	3,207	**35,432**	3,207

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

	Carrying amounts		Fair values	
	2022	2021	**2022**	2021
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial liabilities				
Interest-bearing bank loans and other borrowings	**71,171**	84,313	**71,171**	84,313

Management has assessed that the fair values of cash and cash equivalents, trade receivables, financial assets included in prepayments, other receivables and other assets (current), trade and bills payables, financial liabilities included in other payables and accruals (current), interest-bearing bank loans and other borrowings (current), and lease liabilities (current) approximate to their carrying amounts largely due to the short term maturities of these instruments.

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:

(a) The fair values of non-current financial assets included in prepayments, other receivables, lease liabilities (non-current) and the non-current interest-bearing bank loans and other 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 change in fair value as a result of the Group's own non-performance risk for non-current financial assets included in prepayments, other receivables and other assets, lease liabilities (non-current) and non-current interest-bearing loans as at 31 December 2022 and 2021 were assessed to be insignificant.

(b) The fair values of financial products issued by investment management company in Mainland China included in the financial assets at fair value through profit or loss are quoted from active markets.

(c) The fair value of contingent consideration included in the financial assets at fair value through profit or loss is measured using the valuation technique of the discounted cash flow model using significant unobservable market inputs. For details, please refer to note 21 to these consolidated financial statements.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. 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.

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

Set out below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2022 and 2021:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value of the input
Financial assets at fair value through profit or loss — contingent consideration	Scenario-based method	Discount rate	10.62% (2021: 10.03%–12.05%)	1% (2021: 1%) increase/decrease in the discount rate would result in decrease/increase in the fair value by RMB28,000 (2021: RMB20,000).

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

Assets measured at fair value:

As at 31 December 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	30,012	–	5,420	35,432

As at 31 December 2021

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	–	–	3,207	3,207

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

Assets measured at fair value: (continued)

As at 31 December 2021 (continued)

The movements in fair value measurements within Level 3 during the year are as follows:

	2022 RMB'000	2021 RMB'000
Financial assets at fair value through profit or loss		
At 1 January	**3,207**	7,085
Total gains/(losses) recognised in profit or loss	**318**	(3,878)
Addition	**2,895**	—
Payment	**(1,000)**	—
At 31 December	**5,420**	3,207

Liabilities measured at fair value:

The Group did not have any financial liabilities measured at fair value as at 31 December 2022 and 31 December 2021. The movements in fair value measurements within Level 3 during the year are as follows:

	2022 RMB'000	2021 RMB'000
Financial liabilities at fair value through profit or loss		
At 1 January	**—**	1,402,338
Issuance of Preferred Shares	**—**	243,740
Total losses recognised in profit or loss	**—**	419,490
Conversion into ordinary shares	**—**	(2,024,588)
Exchange realignment	**—**	(40,980)
At 31 December	**—**	—

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 (2021: Nil).

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans and other borrowings, amounts due from a director and cash and cash equivalents. 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 and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	(Decrease)/ increase in loss before tax RMB'000
Year ended 31 December 2022		
RMB	**100**	**(712)**
RMB	**(100)**	**712**
Year ended 31 December 2021		
RMB	100	(843)
RMB	(100)	843

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from the use of financial instruments denominated in USD to finance the Group's operations in the PRC and the fact that the repayment of those USD-denominated financial instruments is based on the RMB-denominated assets generated by the Group's PRC operations. The following table demonstrates the sensitivity as at 31 December 2022 and 2021 to a reasonably possible change by 5% in the USD exchange rates against RMB, with all other variables held constant, of the Group's profit before tax.

	2022 **RMB'000**	2021 RMB'000
If RMB weakens against USD by 5%		
Decrease in profit before tax	**(2,612)**	(2,789)
If RMB strengthens against USD by 5%		
Increase in profit before tax	**2,612**	2,789

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

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 past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

	12-month ECLs Stage 1 RMB'000	Lifetime ECLs Simplified approach RMB'000	Total RMB'000
31 December 2022			
Trade receivables*	**—**	**90,740**	**90,740**
Financial assets included in prepayments, other receivables and other assets			
— Normal**	**66,246**	**—**	**66,246**
Cash and cash equivalents			
— Not yet past due	**994,330**	**—**	**994,330**
	1,060,576	**90,740**	**1,151,316**
31 December 2021			
Trade receivables*	—	73,639	73,639
Financial assets included in prepayments, other receivables and other assets			
— Normal**	46,842	—	46,842
Cash and cash equivalents			
— Not yet past due	1,030,704	—	1,030,704
	1,077,546	73,639	1,151,185

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 19 to these financial statements, respectively.

** The credit quality of the financial assets included in prepayments, other receivables and other assets 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".

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The Group finances its working capital requirements through a combination of funds generated from operations and alternative funding resources from equity and debt.

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

31 December 2022

	On demand RMB'000	Within 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Trade and bills payables	95,670	68,635	–	164,305
Financial liabilities included in other payables and accruals	–	167,929	–	167,929
Lease liabilities*	–	77,833	250,200	328,033
Interest-bearing bank loans and other borrowings	–	21,857	56,032	77,889
	95,670	336,254	306,232	738,156

* The breakdown of lease liabilities with maturity over 1 year is listed below:

	1 to 2 years RMB'000	2 to 3 years RMB'000	3 to 4 years RMB'000	4 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Lease liabilities with maturity over 1 year	68,818	52,688	37,381	30,436	60,877	250,200

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

31 December 2021

	On demand RMB'000	Within 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Trade and bills payables	74,284	87,048	–	161,332
Financial liabilities included in other payables and accruals	–	132,244	–	132,244
Lease liabilities*	–	72,571	228,184*	300,755
Interest-bearing bank loans and other borrowings	–	21,754	73,059	94,813
	74,284	313,617	301,243	689,144

31 December 2021

* The breakdown of lease liabilities with maturity over 1 year is listed below:

	1 to 2 years RMB'000	2 to 3 years RMB'000	3 to 4 years RMB'000	4 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Lease liabilities with maturity over 1 year	62,023	52,981	40,362	25,818	47,000	228,184

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. In the opinion of the directors of the Group, the Group has unutilised facilities of RMB155,944,000 (2021: RMB477,111,000) as at 31 December 2022. As a result, capital risk is not significant for the Group and measurement of capital management is not a tool currently used in the internal management reporting procedures of the Group.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is calculated based on total interest-bearing borrowings as of the end of each year divided by total equity as of the same date. The gearing ratios as at the end of the reporting periods were as follows:

	2022 RMB'000	2021 RMB'000
Total interest-bearing borrowings	**71,171**	84,313
Equity attributable to owners of the parent	**1,721,066**	1,548,894
Gearing ratio	**4.1%**	5.4%

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:

	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**60,156**	55,069
CURRENT ASSETS		
Due from subsidiaries	**1,958,947**	1,376,256
Cash and cash equivalents	**20,721**	623,213
Total current assets	**1,979,668**	1,999,469
CURRENT LIABILITIES		
Other payables	**206,178**	218,275
Interest-bearing other borrowings	**8,706**	7,970
Total current liabilities	**214,884**	226,245

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

	2022 RMB'000	2021 RMB'000
NET CURRENT ASSETS	**1,764,784**	1,773,224
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,824,940**	1,828,293
NON-CURRENT LIABILITIES		
Interest-bearing other borrowings	**43,529**	47,818
NET ASSETS	**1,781,411**	1,780,475
EQUITY		
Share capital	**147**	147
Shares held for share awards schemes	**(20,121)**	—
Reserves (note)	**1,801,385**	1,780,328
Total equity	**1,781,411**	1,780,475

Tu Zhiliang
Director

Liu Kanghua
Director

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

Note:

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

	Share premium RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2021	–	61,875	31,822	(1,024,334)	(930,637)
Loss for the year	–	–	–	(468,742)	(468,742)
Other comprehensive loss for the year:					
Exchange differences on translation of the Company's operations	–	–	27,271	–	27,271
Total comprehensive loss for the year	–	–	27,271	(468,742)	(441,471)
Issuance of ordinary shares (note 27)	349,428	–	–	–	349,428
Equity-settled share option arrangement (note 28(a))	–	127,656	–	–	127,656
Share options exercised (note 27)	98,618	(61,875)	–	–	36,743
Issue of shares in connection with the IPO (note 27)	660,447	–	–	–	660,447
Share issue expenses (note 27)	(46,322)	–	–	–	(46,322)
Transfer from Preferred Shares (note 27)	2,024,484	–	–	–	2,024,484
At 31 December 2021 and 1 January 2022	**3,086,655**	**127,656**	**59,093**	**(1,493,076)**	**1,780,328**
Loss for the year	**–**	**–**	**–**	**(110,755)**	**(110,755)**
Other comprehensive income for the year:					
Exchange differences on translation of the Company's operations	**–**	**–**	**114,557**	**–**	**114,557**
Total comprehensive income for the year	**–**	**–**	**114,557**	**(110,755)**	**3,802**
Equity-settled share option arrangement (note 28(a))	**–**	**17,255**	**–**	**–**	**17,255**
At 31 December 2022	**3,086,655**	**144,911**	**173,650**	**(1,603,831)**	**1,801,385**

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment in note 2.4 to these financial statements. The amounts will either be transferred to share capital when the related options are exercised, or be transferred to retained profits should the retained options expire or be forfeited.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 March 2023.

Five-Year Financial Summary

	Year ended 31 December				
	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULT					
Revenue	**1,624,561**	1,372,099	925,366	896,156	726,245
Gross profit	**499,536**	620,304	437,490	391,257	292,954
Profit/(loss) before tax	**198,709**	(518,022)	(241,763)	(158,827)	(177,234)
Income tax (expense)/credit	**(15,158)**	11,136	(13,565)	10,807	3,424
Profit/(loss) for the year	**183,551**	(506,886)	(255,328)	(148,020)	(173,810)
Attributable to:					
Owner of the parent	**183,294**	(507,069)	(255,749)	(147,883)	(172,981)
Non-controlling interests	**257**	183	421	(137)	(829)
Profit/(loss) for the year	**183,551**	(506,886)	(255,328)	(148,020)	(173,810)
Earnings/(loss) per share attributable to ordinary equity holders of the parent (RMB)					
Basic					
— For profit/(loss) for the year	**0.80**	(4.38)	(3.28)	(1.90)	(2.22)
Diluted					
— For profit/(loss) for the year	**0.77**	(4.38)	(3.28)	(1.90)	(2.22)

	As at 31 December				
	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
FINANCIAL POSITION					
Non-current assets	**1,254,012**	1,094,968	834,526	715,446	688,353
Current assets	**1,359,611**	1,296,832	610,918	386,572	358,160
Current liabilities	**554,317**	521,135	2,038,084	1,310,824	377,611
Non-current liabilities	**337,172**	321,254	540,667	761,382	1,486,010
Net assets/(liabilities)	**1,722,134**	1,549,411	(1,133,307)	(970,188)	(817,108)
Attributable to:					
Owner of the parent	**1,721,066**	1,548,894	(1,133,641)	(971,136)	(818,193)
Non-controlling interests	**1,068**	517	334	948	1,085

Definitions and Glossaries

In this annual report, the following expressions have the meanings set out below unless the context otherwise requires:

"Action Thrive"	Action Thrive Group Limited, a BVI business company with limited liability, incorporated under the laws of BVI on November 5, 2020 which is indirectly wholly owned by Mr. Tu, and one of the Controlling Shareholders
"AGM"	annual general meeting of the Company
"Articles of Association"	the articles of association of the Company as amended from time to time
"Audit Committee"	the audit committee of the Board
"Board" or "Board of Directors"	the board of directors of the Company
"BVI"	the British Virgin Islands
"Cayman Companies Act" or "Companies Act"	the Companies Act (2021 Revision) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
"Celestial City"	Celestial City Investments Limited, a BVI business company with limited liability incorporated under the laws of BVI on November 9, 2020 which is indirectly wholly owned by Mr. Tu, and one of the Controlling Shareholders
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Chairman"	the Chairman of the Board
"China" or the "PRC"	the People's Republic of China, but for the purpose of this prospectus and for geographical reference only, except where the context requires, references in this prospectus to "China" and the "PRC" do not apply to Hong Kong, Macau and Taiwan
"Circular"	the circular of the Company dated November 17, 2022 regarding, among others, the proposed adoption of the Post-IPO Share Option Scheme and the RSA Scheme (New Shares)
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
"Company" or "our Company"	GUSHENGTANG HOLDINGS LIMITED (固生堂控股有限公司), an exempted company with limited liability incorporated under the laws of the Cayman Islands on May 8, 2014, the Shares of which are listing on the Main Board of the Stock Exchange

Definitions and Glossaries

"Consolidated Affiliated Entities"	the entities that we control through the Contractual Arrangements, namely our Onshore Holdcos and their respective subsidiaries
"Contractual Arrangements"	the series of contractual arrangements entered into by and among the WFOEs, the Consolidated Affiliated Entities and their Registered Shareholders, as further described in the section headed "Directors' Report — Contractual Arrangements" in this annual report
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and, unless the context otherwise requires, refers to Mr. Tu, Action Thrive, Celestial City, Dream True and Wumianshan Ltd.
"COVID-19"	an infectious disease caused by the SARS-CoV-2 virus
"Director(s)"	director(s) of the Company
"Dream True"	Dream True Limited, a BVI business company with limited liability incorporated under the laws of BVI on February 9, 2021 and wholly owned by Trident Trust Company (Singapore) Pte. Limited pursuant to the TZL Family Trust, and one of the Controlling Shareholders
"Eligible Participant(s)"	in the context of the Post-IPO Share Option Scheme, means (i) any Employee Participant; or (ii) any Service Provider who the Board or the committee duly appointed by the Board for the purpose of administering the Post-IPO Share Option Scheme considers, in its sole discretion, has the eligibility ascribed in the Post-IPO Share Option Scheme; in the context of the RSA Scheme (New Shares), means (i) any Management Participant; or (ii) any Service Provider, who the Board or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (New Shares) considers, in its sole discretion, has the eligibility ascribed in the RSA Scheme (New Shares); in the context of the RSA Scheme (Existing Shares), means (i) any physician providing online or offline healthcare services to the Group, who is not a director or employee of the Company or any other member of the Group; or (ii) any consultant providing business consulting services, including but not limited to consulting services on healthcare products quality control, medical regulations and policies, operation of offline medical institutions and medical research and development, to the Group
"Employee Participant(s)"	any director and employee of the Company or any other member of the Group (including any person who is granted Post-IPO SOS Options under the Post-IPO Share Option Scheme as an inducement to enter into employment contracts with members of the Group)

"Group", "we", or "us"	the Company together with its subsidiaries and Controlled Affiliated Entities controlled by it through the Contractual Arrangements at the relevant time or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)
"Guangdong Gushengtang"	Guangdong Gushengtang TCM Health Technology Co., Ltd. (廣東固生堂中醫養生健康科技股份有限公司), a limited liability company established in the PRC on September 13, 2010 and a subsidiary of the Company
"Guangzhou Gushengtang Information Technology"	Guangzhou Gushengtang Information Technology Co., Ltd. (廣州固生堂信息技術有限公司) (formerly known as Guangzhou Gushengtang Internet Hospital Co., Ltd. (廣州固生堂互聯網醫院有限公司)), a limited liability company established in the PRC on August 18, 2017 and a subsidiary of the Company
"Guangzhou Gushengtang Oncology Out-patient Department"	Guangzhou Gushengtang TCM Oncology Out-patient Department Co., Ltd. (廣州固生堂中醫腫瘤專科門診部有限公司), a limited liability company established in the PRC on July 18, 2016 and a subsidiary of the Company
"Guangzhou Guyi"	Guangzhou Guyi Investment Holding Company Limited (廣州固益投資控股有限公司), a limited liability company established in the PRC on April 22, 2020 and a subsidiary of the Company
"Gushengtang Hong Kong"	Gushengtang Hong Kong Limited (固生堂香港有限公司), a private company limited by shares incorporated under the laws of Hong Kong on May 30, 2014
"Healthcare Capital"	Healthcare Capital Limited, a private company limited by shares incorporated under the laws of Hong Kong on January 9, 2020
"HK$"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which is/are not connected (within the meaning of the Listing Rules) with any directors, chief executive or substantial shareholders (within the meaning of the Listing Rules) of the Company, its subsidiaries or any of their respective associates
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange on December 10, 2021

Definitions and Glossaries

"Listing Date"	the date, namely December 10, 2021, on which the Shares were listed on the Stock Exchange and from which dealings in the Shares were permitted to commence on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"Macau"	the Macau Special Administrative Region of the PRC
"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
"Management Participant(s)"	any senior or middle-level management of the Company or any other member of the Group, as determined by the Board or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (New Shares) at its sole discretion
"Model Code"	the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Mr. Tu"	Mr. Tu Zhiliang (涂志亮), the executive Director, the chairman of the Board, the chief executive officer of the Company, and one of the Controlling Shareholders
"Ningbo Gushengtang Pharmacy"	Ningbo Gushengtang Pharmacy Co., Ltd. (寧波固生堂大藥房有限公司), a limited liability company established in the PRC on May 18, 2010 and a subsidiary of the Company
"Nomination Committee"	the nomination committee of the Board
"OMO"	online-merge-offline
"Onshore Holdcos"	Guangdong Gushengtang, Guangzhou Gushengtang Information Technology, Guangzhou Gushengtang Oncology Out-patient Department and Ningbo Gushengtang Pharmacy
"Post-IPO Share Option Scheme"	the share option scheme of the Company adopted by the Company on December 7, 2022, the principal terms of which are set out in the Circular
"Post-IPO SOS Options"	a right to subscribe for Shares pursuant to the Post-IPO Share Option Scheme
"Pre-IPO Share Option Plan"	the pre-IPO share option plan approved and adopted by our Company on March 31, 2021, the principal terms of which are summarized in "Appendix IV — Statutory and General Information — D. Pre-IPO Share Option Plan" in the Prospectus
"Prospectus"	the prospectus of the Company published on November 30, 2021

"Registered Shareholders"	the registered shareholders of Onshore Holdcos, namely Mr. Tu, Yan Jun and Zheng Xiang
"Remuneration Committee"	the remuneration committee of the Board
"Reporting Period"	the twelve-month period from January 1, 2022 to December 31, 2022
"Restricted Share(s)"	Share(s) that may be offered by the Company to any Eligible Participants pursuant to the RSA Scheme (New Shares) or RSA Scheme (Existing Shares) (where applicable)
"RMB" or "Renminbi"	the lawful currency of the PRC
"RSA Scheme (Existing Shares)"	the restricted share award scheme (existing shares) of the Company adopted by the Company on September 9, 2022, the principal terms of which are set out in the announcement of the Company dated September 12, 2022
"RSA Scheme (Existing Shares) Awards"	an award granted by the Board or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (Existing Shares) to an Eligible Participant, which may vest in the form of Restricted Shares, as the or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (Existing Shares) may determine in accordance with the terms of the rules of the RSA Scheme (Existing Shares)
"RSA Scheme (New Shares)"	the restricted share award scheme (new shares) of the Company adopted by the Company on December 7, 2022, the principal terms of which are set out in the Circular
"RSA Scheme (New Shares) Awards"	an award granted by the Board or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (New Shares) to an Eligible Participant, which may vest in the form of Restricted Shares, as the or the committee duly appointed by the Board for the purpose of administering the RSA Scheme (New Shares) may determine in accordance with the terms of the rules of the RSA Scheme (New Shares)
"Service Provider(s)"	(i) any physician, who is not a director or employee of the Company or any other member of the Group, providing online or offline healthcare services to the Group; or (ii) any consultant providing business consulting services on healthcare products quality control, medical regulations and policies, operation of offline medical institutions and medical research and development, to the Group, excluding (x) placing agent or financial adviser providing services for fundraising, mergers or acquisitions or (y) professional service provider such as auditor or valuer who provides assurance, or is required to perform services with impartiality and objectivity, and such person shall provide services to the Group on a continuing or recurring basis in its ordinary and usual course of business which are in the interests of the long-term growth of the Group
"SFC"	the Securities and Futures Commission of Hong Kong

Definitions and Glossaries

"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 par value of US$0.0001 each
"Shareholder(s)"	holder(s) of the Shares
"Share Schemes"	share options schemes and/or share award schemes involving issuance of new Shares adopted and to be adopted by the Company from time to time
"Stock Exchange"	the Stock Exchange of Hong Kong Limited
"TCM"	traditional Chinese medicine
"TZL Family Trust"	the trust arrangement established by Celestial City as the settlor, with Mr. Tu as the protector, Trident Trust Company (Singapore) Pte. Limited as the trustee and Celestial City, Mr. Tu and Mr. Tu's family members as beneficiaries
"US$", "USD" or "U.S. dollars"	United States dollars, the lawful currency of the United States
"Voting Deeds"	the voting right entrustment deed entered into between Mr. Tu and each of Gushengtang Ltd., Shiyimianshan Holdings Limited, Shiermianshan Holdings Limited, Shisanmianshan Holdings Limited, Shisimianshan Holdings Limited, Shiwumianshan Holdings Limited, Yijiakang Technology Holdings Limited, Yijiajian Technology Holdings Limited, Yijiale Technology Holdings Limited and Yijiaan Technology Holdings Limited on May 31, 2021
"WFOEs"	Guangzhou Guyi and Wumianshan Investment Holdings
"Wumianshan Investment Holdings"	Guangzhou Wumianshan Investment Holdings Co., Ltd. (廣州五面山投資控股有限公司), a limited liability company established in the PRC on May 22, 2020 and a subsidiary of the Company
"Wumianshan Ltd."	Wumianshan Ltd., one of the Controlling Shareholders and a BVI business company incorporated under the laws of the BVI on April 23, 2014 which is wholly owned by Mr. Tu
"Yan Jun"	a member of the senior management (vice president) of the Company
"Zheng Xiang"	a member of the senior management (vice president) of the Company

In this annual report, unless otherwise indicated, the terms "associate", "associated corporation", "connected person", "controlling shareholder", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules.

GUSHENGTANG HOLDINGS LIMITED
固生堂控股有限公司