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GUSHENGTANG HOLDINGS LIMITED

固生堂控股有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)

(Stock Code: 2273)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2023

FINANCIAL HIGHLIGHTS

Revenue of the Group increased by 40.3% to RMB986.1 million for the six months ended June 30, 2023 from RMB702.9 million for the six months ended June 30, 2022.

Net profit increased by 74.0% to RMB93.2 million for the six months ended June 30, 2023 from RMB53.6 million (restated) for the six months ended June 30, 2022.

The adjusted net profit⁽¹⁾ increased by 63.8% to RMB101.8 million for the six months ended June 30, 2023 from RMB62.1 million (restated) for the six months ended June 30, 2022.

Note:

(1) Adjustments to net profit include the equity-settled share-based payment in relation to the share options granted under the Pre-IPO Share Option Plan as defined in the Prospectus.

The Board is pleased to announce the unaudited consolidated interim results of the Group for the six months ended June 30, 2023 together with the comparative figures for the same period in 2022 as set out below.

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

For the six months ended June 30, 2023

| | <i>Notes</i> | 2023 (Unaudited) RMB'000 | 2022 (Unaudited) RMB'000 (Restated) |
|--|--------------|---|--|
| REVENUE | 4 | 986,126 | 702,902 |
| Cost of sales | | <u>(703,181)</u> | <u>(504,007)</u> |
| Gross profit | | 282,945 | 198,895 |
| Other income and gains | 5 | 36,942 | 11,611 |
| Selling and distribution expenses | | (120,241) | (91,267) |
| Administrative expenses | | (69,813) | (51,331) |
| Other expenses | | (7,071) | (6,187) |
| Finance costs | | (15,914) | (8,715) |
| Share of profits of associates | | 142 | 284 |
| | | <u> </u> | <u> </u> |
| PROFIT BEFORE TAX | 6 | 106,990 | 53,290 |
| Income tax (expenses)/credit | 7 | (13,788) | 287 |
| | | <u> </u> | <u> </u> |
| PROFIT FOR THE PERIOD | | <u>93,202</u> | <u>53,577</u> |
| OTHER COMPREHENSIVE (LOSS)/INCOME | | | |
| <i>Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:</i> | | | |
| Exchange differences on translation of foreign operations | | (65,483) | (68,939) |
| <i>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:</i> | | | |
| Translation of the Company's functional currency to presentation currency | | 71,950 | 46,406 |
| | | <u> </u> | <u> </u> |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX | | 6,467 | (22,533) |
| | | <u> </u> | <u> </u> |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | <u>99,669</u> | <u>31,044</u> |

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF
PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)**

For the six months ended June 30, 2023

| | <i>Note</i> | 2023 (Unaudited) RMB'000 | 2022 (Unaudited) RMB'000 (Restated) |
|---|-------------|---|--|
| Profit attributable to: | | | |
| Owners of the parent | | 92,749 | 53,289 |
| Non-controlling interests | | 453 | 288 |
| | | <u>93,202</u> | <u>53,577</u> |
| Total comprehensive income attributable to: | | | |
| Owners of the parent | | 99,216 | 30,756 |
| Non-controlling interests | | 453 | 288 |
| | | <u>99,669</u> | <u>31,044</u> |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| | 9 | | |
| Basic | | | |
| — For profit for the period (RMB cents) | | <u>0.39</u> | <u>0.23</u> |
| Diluted | | | |
| — For profit for the period (RMB cents) | | <u>0.38</u> | <u>0.22</u> |

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2023

| | <i>Notes</i> | June 30, 2023 (Unaudited) RMB'000 | December 31, 2022 (Audited) RMB'000 (Restated) |
|---|--------------|--|--|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 81,233 | 70,863 |
| Right-of-use assets | | 302,029 | 268,469 |
| Goodwill | <i>10</i> | 911,675 | 816,672 |
| Other intangible assets | | 26,609 | 27,757 |
| Investments in associates | | 2,586 | 6,069 |
| Prepayments, other receivables and other assets | | 25,531 | 28,407 |
| Deferred tax assets | | 47,871 | 40,408 |
| | | <hr/> | <hr/> |
| Total non-current assets | | 1,397,534 | 1,258,645 |
| CURRENT ASSETS | | | |
| Inventories | | 122,796 | 104,855 |
| Trade receivables | <i>11</i> | 115,739 | 89,411 |
| Prepayments, deposits and other receivables | | 178,493 | 135,583 |
| Financial assets at fair value through profit or loss | | 64,851 | 35,432 |
| Cash and cash equivalents | <i>12</i> | 1,274,992 | 994,330 |
| | | <hr/> | <hr/> |
| Total current assets | | 1,756,871 | 1,359,611 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | <i>13</i> | 163,129 | 164,305 |
| Other payables and accruals | | 259,656 | 299,958 |
| Interest-bearing bank and other borrowings | | 19,508 | 18,214 |
| Lease liabilities | | 71,259 | 57,418 |
| Tax payable | | 27,654 | 14,422 |
| | | <hr/> | <hr/> |
| Total current liabilities | | 541,206 | 554,317 |
| | | <hr/> | <hr/> |
| NET CURRENT ASSETS | | 1,215,665 | 805,294 |
| | | <hr/> | <hr/> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 2,613,199 | 2,063,939 |
| | | <hr/> <hr/> | <hr/> <hr/> |

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)

June 30, 2023

| | June 30, 2023 (Unaudited) <i>RMB'000</i> | December 31, 2022 (Audited) <i>RMB'000</i> (Restated) |
|---|---|---|
| NON-CURRENT LIABILITIES | | |
| Interest-bearing bank and other borrowings | 4,674 | 52,957 |
| Lease liabilities | 249,004 | 222,698 |
| Other payables and accruals | 63,003 | 56,062 |
| Deferred tax liabilities | 12,359 | 14,212 |
| | <hr/> | <hr/> |
| Total non-current liabilities | 329,040 | 345,929 |
| | <hr/> | <hr/> |
| Net assets | <u>2,284,159</u> | <u>1,718,010</u> |
| EQUITY | | |
| Equity attributable to owners of the Company | | |
| Share capital | 154 | 147 |
| Shares held for share award schemes | (33,803) | (20,121) |
| Reserves | 2,317,008 | 1,736,863 |
| | <hr/> | <hr/> |
| | 2,283,359 | 1,716,889 |
| Non-controlling interests | 800 | 1,121 |
| | <hr/> | <hr/> |
| Total equity | <u>2,284,159</u> | <u>1,718,010</u> |

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2023

1 BASIS OF PREPARATION

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

The unaudited interim condensed consolidated financial information is presented in Renminbi (“RMB”) and all value are rounded to the nearest thousand except when otherwise indicated.

2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

| | |
|---|---|
| HKFRS 17 | <i>Insurance Contracts</i> |
| Amendments to HKFRS 17 | <i>Insurance Contracts</i> |
| Amendment to HKFRS 17 | <i>Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information</i> |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | <i>Disclosure of Accounting Policies</i> |
| Amendments to HKAS 8 | <i>Definition of Accounting Estimates</i> |
| Amendments to HKAS 12 | <i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> |
| Amendments to HKAS 12 | <i>International Tax Reform — Pillar Two Model Rules</i> |

The Group has adopted the new and revised HKFRSs which are relevant to the Group's operations and are mandatory for the financial year beginning on 1 January 2023. The adoption of these new and revised HKFRSs does not have any significant financial effect on the Group's unaudited condensed consolidated interim results of operations and financial position.

3 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 People's Republic of China ("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.

4 REVENUE

An analysis of the Group's revenue is as follows:

| | For the six months ended | |
|---------------------------------------|---------------------------------|----------------|
| | June 30, | |
| | 2023 | 2022 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Unaudited) |
| Revenue from contracts with customers | <u>986,126</u> | <u>702,902</u> |

Disaggregated revenue information

| Types of goods or service | For the six months ended June 30, | |
|---------------------------------------|--------------------------------------|--------------------------------|
| | 2023 RMB'000 (Unaudited) | 2022 RMB'000 (Unaudited) |
| Healthcare solutions | 965,311 | 687,507 |
| Sale of healthcare products | 20,815 | 15,395 |
| | <u>986,126</u> | <u>702,902</u> |
| Timing of revenue recognition | | |
| Revenue from contracts with customers | <u>986,126</u> | <u>702,902</u> |

5 OTHER INCOME AND GAINS

| | For the six months ended June 30, | |
|---|--------------------------------------|--------------------------------|
| | 2023 RMB'000 (Unaudited) | 2022 RMB'000 (Unaudited) |
| Interest income | 5,485 | 4,928 |
| Rent concessions from lessors | — | 3,009 |
| Fair value gains on financial assets at fair value through profit or loss, net | 4,019 | 1,618 |
| Government subsidies* | 10,135 | 917 |
| Rental income | 712 | 513 |
| Gain on disposal of the investment in an associate | 303 | 310 |
| Foreign exchange differences, net | 14,898 | — |
| Others | 1,390 | 316 |
| | <u>36,942</u> | <u>11,611</u> |

* There are no unfulfilled conditions or contingencies related to these government subsidies.

6 PROFIT BEFORE TAX

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

| | <i>Notes</i> | For the six months ended | |
|---|--------------|---------------------------------|--------------------|
| | | June 30, | |
| | | 2023 | 2022 |
| | | RMB'000 | RMB'000 |
| | | (Unaudited) | (Unaudited) |
| Cost of provision of healthcare solutions | | 687,606 | 495,124 |
| Cost of sale of healthcare products | | 15,575 | 8,883 |
| Depreciation of property, plant and equipment | | 18,362 | 13,730 |
| Amortisation of other intangible assets [#] | | 2,170 | 2,237 |
| Depreciation of right-of-use assets | | 38,931 | 34,846 |
| Lease payments not included in the measurement of lease liabilities | | 6,837 | 4,839 |
| Auditor's remuneration | | 600 | 500 |
| Employee benefit expense (excluding directors' remuneration): | | | |
| Wages and salaries | | 144,434 | 99,767 |
| Equity-settled share-base payments | | 1,127 | 1,127 |
| Pension scheme contributions | | 21,340 | 18,673 |
| | | 166,901 | 119,567 |
| Fair value gain on financial assets at fair value through profit or loss, net ^{**} | 5 | (4,019) | (1,618) |
| Loss on disposal of items of property, plant and equipment [*] | | 98 | 204 |
| Impairment/(reversal of impairment) of trade receivables [*] | | 961 | (20) |
| Foreign exchange (gain)/loss ^{***} | 5 | (14,898) | 3,533 |
| Gain on disposal of the investment in an associate ^{**} | 5 | (303) | (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.

^{***} Foreign exchange gain and foreign exchange loss were included in "Other income and gains" and "Other expenses" in profit or loss, respectively.

7 INCOME TAX

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

Cayman Islands

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 “high and new technology enterprise” and a preferential income tax rate of 15% during the Relevant Periods. 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 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 period.

| | For the six months ended | |
|--|---------------------------------|---------------------|
| | June 30, | |
| | 2023 | 2022 |
| | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 |
| | | (Restated) |
| Current | 23,104 | 3,865 |
| Deferred | (9,316) | (4,152) |
| Total tax charge/(credit) for the period | <u>13,788</u> | <u>(287)</u> |

8 DIVIDENDS

No dividend was proposed for the period ended 30 June 2023 and 2022.

9 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 234,975,233 (the six months ended 30 June 2022: 230,396,458) in issue during the period, as adjusted to reflect the rights issue during the period.

The calculation of the diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

| | For the six months ended June 30, | |
|--|--|--------------------|
| | 2023 | 2022 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| | | (Restated) |
| Earnings | | |
| Profit attributable to ordinary equity holders of the parent | 92,749 | 53,289 |
| | | |
| | Number of shares | |
| Shares | | |
| Weighted average number of ordinary shares in issue | 235,712,014 | 230,396,458 |
| Weighted average number of ordinary shares held for the share award scheme | (736,781) | — |
| Weighted average number of ordinary shares in issue used in the basic earnings per share calculation | 234,975,233 | 230,396,458 |
| Effect of dilution — weighted average number of ordinary shares: | | |
| Share options | 11,526,002 | 7,675,568 |
| Weighted average number of ordinary shares in issue used in the diluted earnings per share calculation | 246,501,235 | 238,072,026 |

10 GOODWILL

| | June 30, 2023 | December 31, 2022 |
|--------------------------------------|--------------------------|-----------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Audited) |
| At the beginning of the period/year: | | |
| Cost | 819,222 | 691,165 |
| Accumulated impairment | (2,550) | (2,550) |
| | <u>816,672</u> | <u>688,615</u> |
| Net carrying amount | | |
| | <u>816,672</u> | <u>688,615</u> |
| Acquisition of subsidiaries | 95,003 | 128,057 |
| | <u>95,003</u> | <u>128,057</u> |
| At the end of the period/year | <u><u>911,675</u></u> | <u><u>816,672</u></u> |

11 TRADE RECEIVABLES

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:

| | June 30, 2023 | December 31, 2022 |
|-------------------------------|--------------------------|----------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Audited) |
| Within three months | 106,450 | 80,970 |
| Over three months to one year | 8,439 | 7,624 |
| Over one year | 850 | 817 |
| | <u>115,739</u> | <u>89,411</u> |
| | <u><u>115,739</u></u> | <u><u>89,411</u></u> |

12 CASH AND CASH EQUIVALENTS

| | June 30, 2023 | December 31, 2022 |
|---|--------------------------|----------------------|
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Audited) |
| Cash and bank balances | 800,992 | 684,330 |
| Non-pledged time deposits with original maturity of less than three months when acquired | 474,000 | 310,000 |
| Cash and cash equivalents | <u>1,274,992</u> | <u>994,330</u> |
| Denominated in: | | |
| RMB (<i>note</i>) | 906,165 | 935,646 |
| USD | 234,192 | 8,240 |
| HK\$ | 134,635 | 50,444 |
| | <u>1,274,992</u> | <u>994,330</u> |

Note:

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, 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 are deposited with creditworthy banks with no recent history of default.

13 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:

| | June 30, 2023 | December 31, 2022 |
|-------------------------------|--------------------------|----------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Audited) |
| Within three months | 120,670 | 114,621 |
| Over three months to one year | 33,055 | 38,379 |
| Over one year | 9,404 | 11,305 |
| | <u>163,129</u> | <u>164,305</u> |

Trade and bills payables are non-interest-bearing and have a credit term ranging from one to three 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.

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. During the Reporting Period, 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 and the relevant requirements from the local medical insurance bureaus, 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, the *Physician Law of the People’s Republic of China* (《中華人民共和國醫師法》) came into effect. This law encourages physicians to regularly provide healthcare services at medical institutions at or below the county level, which should be supported by their primary practicing medical institutions. In the same month, 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 make 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 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 talent. The Opinion proposes to increase the supply of TCM talent through the strategy of “western medicine talent learning from TCM (西學中)” and the educational reforms, and to encourage the flow of TCM talent 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 operations.

In February 2023, the General Office of the State Council issued the *Implementation Plan for the Major Project of Revitalizing and Developing Traditional Chinese Medicine* (《中醫藥振興發展重大工程實施方案》), which further enhances efforts in supporting the development of TCM during the 14th five-year period, aiming at promoting the revitalization and development of TCM. Such plan coordinates and deploys eight major projects, including the project of facilitating the high-quality development of TCM healthcare services, the project of strengthening the synergy between TCM and western medicine, and the project of inheriting, innovating and modernizing TCM, putting emphasis on the enhancement of TCM capabilities in medical institutions at the grass-roots level and the cultivation of high-quality TCM talent. As a leading TCM healthcare service provider at the grass-roots level, we collaborate with multiple public Class III Grade A hospitals in the form of medical consortia and establish expert committees and physician inheritance studios with renowned National TCM Great Masters, National Famous TCM Doctors and Provincial Famous TCM Doctors, forming a three-tier talent cultivation system comprising academic leaders, key physicians and young professionals. Such talent cultivation system aligns with the national policy of promoting the renowned physician project and cultivating high-quality TCM talent. In the future, we will continually strengthen our team of medical professionals to realize a sustainable development leveraging the comprehensive support from the PRC government in this regard.

In April 2023, the National Administration of Traditional Chinese Medicine, Publicity Department of CPC Central Committee (中共中央宣傳部), the Ministry of Education, the Ministry of Commerce (商務部), the Ministry of Culture and Tourism (文化和旅遊部), the National Health Commission, the National Radio and Television Administration (國家廣播電視總局) and the National Culture Heritage Administration (國家文物局) jointly issued the *Implementation Plan for the Project of Promoting Traditional Chinese Medicine Culture during the 14th Five-year Period* (《“十四五”中醫藥文化弘揚工程實施方案》), which aims to promote the development of TCM culture during the 14th five-year period. Such plan proposes to make increasing investments in the special funds intended for promoting TCM culture and improve and optimize the investment mechanism, in order to utilize the existing funding sources in an integrated approach to support major projects. Such plan also encourages the involvement of non-governmental sectors and the collaborations between government authorities and non-governmental sectors under applicable laws and regulations, whereby enterprises, foundations and relevant organizations are expected to play positive roles in establishing a long-term mechanism for the participation of non-governmental sectors in TCM culture-related work. Taking the leadership in TCM healthcare service industry in China, we are expected to achieve better growth by seizing the opportunities brought by favorable policies promulgated by the PRC government to encourage the development of TCM.

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 six months ended June 30, 2023 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 period. Our revenue derived from sale of healthcare products for the six months ended June 30, 2023 was primarily affected by the type and volume of valuable medicinal and nourishment sold during the period, the unit price of which may vary significantly. Generally, when the sales volume of valuable medicinal and nourishment with high unit price increases, we would generate more revenue from sale of healthcare products.

We have been actively expanding our business footprint in China. As of June 30, 2023, we owned and operated 53 medical institutions in Beijing, Shanghai, Guangzhou, Shenzhen, Foshan, Zhongshan, Fuzhou, Nanjing, Suzhou, Ningbo, Wuxi, Hangzhou, Zhengzhou, Wenzhou, Kunshan and Wuhan, 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 June 30, 2023, including official websites, mobile applications, official WeChat accounts and mini programs. We also owned and operated four offline pharmacies for our sale of healthcare products as of June 30, 2023. Moreover, we had established collaborative relationships with 17 third-party online platforms as of June 30, 2023, 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 a new offline medical institution. In March 2023, we entered into an equity transfer agreement with the shareholders of Kunshanshi Mingtai Out-patient Co., Ltd. (昆山市明泰門診部有限公司) (the “**Kunshan Mingtai**”) to acquire 100% equity interest of Kunshan Mingtai. In the same month, we also entered into an equity transfer agreement with the shareholders of Wuxi Litongfeng Traditional Chinese Medicine Hospital Co., Ltd. (無錫李同豐中醫醫院有限公司) (the “**Wuxi Litongfeng Hospital**”) to acquire 100% equity interest of Wuxi Litongfeng Hospital. In addition, in April 2023, we entered into an equity transfer agreement with the shareholders of Wuhan Yide TCM Out-patient Department Co., Ltd. (武漢頤德中醫門診部有限公司) (the “**Wuhan Yide**”) to acquire 100% equity interest of Wuhan Yide. To maintain a unified brand image and improve our brand awareness, all of these acquired medical institutions are operated under our brand name after the acquisitions. Such acquisitions further expanded our offline medical service network and enlarged our market share in East China. Furthermore, we established a new medical institution, namely Foshan Chancheng Zumiao Gushengtang TCM Out-patient Department Co., Ltd. (Foshan Chancheng Branch) (佛山市禪城祖廟固生堂中醫門診部有限公司(佛山禪城分院)). As of June 30, 2023, all the above acquired and self-established medical institutions had commenced operations. 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 with 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. As of June 30, 2023, we were in collaboration with multiple hospitals and TCM universities.

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 periods indicated:

| | Six months ended June 30, | |
|---|----------------------------------|-------------|
| | 2023 | 2022 |
| New customers ⁽¹⁾ | 346,679 | 246,325 |
| Accumulated customers at the end of each period ⁽²⁾ | 3,079,503 | 2,427,150 |
| Customer visits (<i>thousands</i>) | 1,806 | 1,323 |
| Accumulated customer visits at the end of each period (<i>thousands</i>) | 14,681 | 11,253 |
| Customer return rate ⁽³⁾ (%) | 67.3 | 66.9 |
| Average spending per customer visit (<i>RMB</i>) | 546 | 531 |

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 period, 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 period.
- (3) Refer to, in respect of any financial period, a fraction (expressed as a percentage) equals to the number of returning customers in respect of such financial period 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 period.

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 periods indicated:

| | Six months ended June 30, | |
|--|----------------------------------|-------------|
| | 2023 | 2022 |
| Number of members who had made spending in our medical service network | 174,734 | 99,201 |
| Member visits (<i>thousands</i>) | 621 | 366 |
| Member return rate ⁽¹⁾ (%) | 85.5 | 87.6 |

Note:

- (1) Refer to, in respect of any financial period, a fraction (expressed as a percentage) equals to the number of returning members in respect of such financial period 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 period.

IMPACT OF THE COVID-19 PANDEMIC

Since early December 2022, the government authorities in China eased the restrictions previously imposed to contain the spread of the COVID-19 pandemic. The surge in infected population in China in late 2022 caused impacts on our business operations. However, the outbreak and spread of the COVID-19 pandemic have improved public awareness on health and sanitation in China and facilitated the popularization of TCM healthcare services and products as well as the promulgation of favorable government policies encouraging the development of online healthcare services.

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 in late 2022 and have served a large number of patients since then. 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 talent, 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 talent 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.** 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) 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. In February 2023, we obtained the Registration Approval for Medical Institutions on TCM In-hospital Preparations for our Spleen-invigorating and Fat-reducing Ointment (健脾化脂膏). We have also completed trial production for several in-hospital preparations, the indications of which include hair loss and infertility, 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 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.

FINANCIAL REVIEW

Revenue Breakdown

Revenue by Business Segment

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

| | Six months ended June 30, | | | | Period |
|-----------------------------------|---------------------------|--|-----------------------|------------------------------|---------------------------------------|
| | 2023 | 2022 | 2023 | 2022 | to period fluctuation 2023/2022 |
| | Revenue (RMB'000) | % of total revenue (%) <i>(Unaudited)</i> | Revenue (RMB'000) | % of total revenue (%) | (%) |
| Provision of healthcare solutions | 965,311 | 97.9 | 687,507 | 97.8 | 40.4 |
| Sale of healthcare products | 20,815 | 2.1 | 15,395 | 2.2 | 35.2 |
| Total | <u>986,126</u> | <u>100.0</u> | <u>702,902</u> | <u>100.0</u> | <u>40.3</u> |

Our consolidated revenue increased by 40.3% from RMB702.9 million for the six months ended June 30, 2022 to RMB986.1 million for the six months ended June 30, 2023, 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 40.4% from RMB687.5 million for the six months ended June 30, 2022 to RMB965.3 million for the six months ended June 30, 2023, primarily attributable to the increased revenue generated by our newly acquired and existing offline medical institutions and the business expansion of our online healthcare platforms.

Revenue from Sale of Healthcare Products

Our revenue derived from sale of healthcare products increased by 35.2% from RMB15.4 million for the six months ended June 30, 2022 to RMB20.8 million for the six months ended June 30, 2023, primarily attributable to the increase in sales volume of our healthcare products sold through offline channels in the first half of 2023.

Revenue by Channel

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

| | Six months ended June 30, | | | | Period |
|---|---------------------------|---------------------|-----------------------|---------------------|--------------------|
| | 2023 | | 2022 | | to period |
| | | % of total | | % of total | fluctuation |
| | Revenue | revenue | Revenue | revenue | 2023/2022 |
| | (RMB'000) | (%) | (RMB'000) | (%) | (%) |
| | | (Unaudited) | | | |
| Offline medical institutions ⁽¹⁾ | 856,393 | 86.8 | 581,382 | 82.7 | 47.3 |
| Online healthcare platforms | 129,733 | 13.2 | 121,520 | 17.3 | 6.8 |
| Total | <u>986,126</u> | <u>100.0</u> | <u>702,902</u> | <u>100.0</u> | <u>40.3</u> |

Note:

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

Our revenue derived from offline medical institutions increased by 47.3% from RMB581.4 million for the six months ended June 30, 2022 to RMB856.4 million for the six months ended June 30, 2023, 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 6.8% from RMB121.5 million for the six months ended June 30, 2022 to RMB129.7 million for the six months ended June 30, 2023, primarily attributable to the increased customer visits of our online healthcare platforms.

Cost of Sales

During the Reporting Period, our cost of sales primarily consisted of (i) cost of physicians and cost of materials; and (ii) 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. Our cost of sales increased by 39.5% from RMB504.0 million for the six months ended June 30, 2022 to RMB703.2 million for the six months ended June 30, 2023, primarily due to the increased cost of physicians and cost of materials in the first half of 2023.

The following table sets forth a breakdown of our cost of sales by nature for the periods indicated:

| | Six months ended June 30, | | | | Period to period fluctuation 2023/2022 (%) |
|---|-------------------------------|----------------------------------|-------------------------------|---------------------|--|
| | 2023 | | 2022 | | |
| | Cost of sales (RMB'000) | % of total (%) (Unaudited) | Cost of sales (RMB'000) | % of total (%) | |
| Cost of physicians and cost of materials | 557,707 | 79.3 | 389,343 | 77.2 | 43.2 |
| Regular operating expenses | 145,474 | 20.7 | 114,664 | 22.8 | 26.9 |
| Total | <u>703,181</u> | <u>100.0</u> | <u>504,007</u> | <u>100.0</u> | <u>39.5</u> |

Our cost of physicians and cost of materials increased by 43.2% from RMB389.3 million for the six months ended June 30, 2022 to RMB557.7 million for the six months ended June 30, 2023, primarily due to (i) the increased number of our physicians accommodating our increasing demands for physician resources during business expansion; and (ii) the increased cost of materials mainly in line with our expanded business scale. Our regular operating expenses increased by 26.9% from RMB114.7 million for the six months ended June 30, 2022 to RMB145.5 million for the six months ended June 30, 2023, primarily due to our recruitment of non-physician staff and procurement of utilities mainly for offline medical institutions that commenced operations in the second half of 2022 and the first half of 2023.

Gross Profit and Gross Profit Margin

Our gross profit increased by 42.3% from RMB198.9 million for the six months ended June 30, 2022 to RMB282.9 million for the six months ended June 30, 2023.

The following table sets forth a breakdown of our gross profit and gross profit margin by business segment for the periods indicated:

| | Six months ended June 30, | | | |
|-----------------------------------|---------------------------------------|--|---------------------------------------|--|
| | 2023 | | 2022 | |
| | Gross profit (RMB'000) | Gross profit margin (%) (Unaudited) | Gross profit (RMB'000) | Gross profit margin (%) |
| Provision of healthcare solutions | 277,706 | 28.8 | 192,383 | 28.0 |
| Sale of healthcare products | 5,239 | 25.2 | 6,512 | 42.3 |
| Total | <u>282,945</u> | <u>28.7</u> | <u>198,895</u> | <u>28.3</u> |

Our gross profit of provision of healthcare solutions increased by 44.4% from RMB192.4 million for the six months ended June 30, 2022 to RMB277.7 million for the six months ended June 30, 2023, which was generally in line with the increased revenue generated from providing healthcare solutions. Our gross profit margin of provision of healthcare solutions remained relatively stable at 28.0% for the six months ended June 30, 2022 and 28.8% for the six months ended June 30, 2023.

Our gross profit of sale of healthcare products decreased by 19.5% from RMB6.5 million for the six months ended June 30, 2022 to RMB5.2 million for the six months ended June 30, 2023, and correspondingly, the gross profit margin of sale of healthcare products decreased from 42.3% for the six months ended June 30, 2022 to 25.2% for the six months ended June 30, 2023, primarily due to our adjustment on the sale of healthcare products in the first half of 2023.

Other Income and Gains

Our other income and gains increased significantly by 218.2% from RMB11.6 million for the six months ended June 30, 2022 to RMB36.9 million for the six months ended June 30, 2023, primarily because (i) we recorded net foreign exchange gains of RMB14.9 million mainly as a result of the appreciation of USD against RMB, as we have deposits denominated in USD; and (ii) we recorded an increase of RMB9.2 million in government subsidies mainly because we applied for a government subsidy by virtue of our successful listing and received such subsidy from the local government authority in the first half of 2023.

Selling and Distribution Expenses

| | Six months ended June 30, | | | | Period to period fluctuation 2023/2022 (%) |
|--------------------------------------|--|----------------------------------|--|-------------------|--|
| | 2023 | | 2022 | | |
| | Selling and distribution expenses (RMB'000) | % of total (%) (Unaudited) | Selling and distribution expenses (RMB'000) | % of total (%) | |
| Regional operating expenses | 117,445 | 97.7 | 89,657 | 98.2 | 31.0 |
| Third-party client acquisition costs | 2,796 | 2.3 | 1,610 | 1.8 | 73.7 |
| Total | 120,241 | 100.0 | 91,267 | 100.0 | 31.7 |

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. 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 increased by 31.7% from RMB91.3 million for the six months ended June 30, 2022 to RMB120.2 million for the six months ended June 30, 2023, primarily due to an increase of RMB27.8 million in regional operating expenses mainly as a result of the increased employee benefit expenses of our regional operating department to accommodate our business expansion.

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 through 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 with the six months ended June 30, 2022, approximately 95% of our new customers were acquired by our proprietary medical institutions, pharmacies and online healthcare platform, while approximately 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 increased from RMB1.6 million for the six months ended June 30, 2022 to RMB2.8 million for the six months ended June 30, 2023, which was in line with the expansion of our business. 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 increased by 36.0% from RMB51.3 million for the six months ended June 30, 2022 to RMB69.8 million for the six months ended June 30, 2023, primarily due to (i) the increased employee benefit expenses; and (ii) the increased office expenses mainly because our business travels and meetings increased and certain of our medical institutions commenced operations in the first half of 2023.

Other Expenses

During the Reporting Period, our other expenses primarily consisted of donation and impairment of financial assets. Our other expenses increased by 14.3% from RMB6.2 million for the six months ended June 30, 2022 to RMB7.1 million for the six months ended June 30, 2023, primarily due to the increase in donation mainly in relation to our charitable donation as part of our ESG efforts.

Finance Costs

Our finance costs increased by 82.6% from RMB8.7 million for the six months ended June 30, 2022 to RMB15.9 million for the six months ended June 30, 2023, primarily due to the increase in interest rate of our other borrowings.

Income Tax (Expenses)/Credit

We recorded income tax expenses of RMB13.8 million for the six months ended June 30, 2023, compared to income tax credit of RMB0.3 million (restated) for the six months ended June 30, 2022, primarily due to a significant increase of RMB53.7 million in the taxable profit in the first half of 2023.

Profit for the Period

As a result of the foregoing, our profit for the period increased from RMB53.6 million (restated) for the six months ended June 30, 2022 to RMB93.2 million for the six months ended June 30, 2023.

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 period-to-period 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 profit or loss and other 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 for the period adjusted for equity-settled share-based payments in relation to the share options granted under the Pre-IPO Share Option Plan as defined in the Prospectus. We eliminate the potential impacts of such item that our management does not consider to be indicative of our operating performance, as such equity-settled share-based payments are non-operating and non-recurring expenses of our Group. Adjusted net profit increased by 63.8% from RMB62.1 million (restated) for the six months ended June 30, 2022 to RMB101.8 million for the six months ended June 30, 2023.

| | Six months ended June 30, | |
|-------------------------------------|----------------------------------|----------------------------|
| | 2023 | 2022 |
| | | (Restated ⁽²⁾) |
| | <i>(Unaudited)</i> | |
| Profit for the period | 93,202 | 53,577 |
| Adjustment for ⁽¹⁾ : | | |
| Equity-settled share-based payments | <u>8,557</u> | <u>8,557</u> |
| Adjusted net profit | <u>101,759</u> | <u>62,134</u> |

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) Please see “Notes to the Unaudited Interim Condensed Consolidated Financial Statements — Changes in Accounting Policies and Disclosures” for details.

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. On March 30, 2023, 10,400,000 Shares of the Company were issued by way of top-up placing, details of which were set out in the section headed “Use of Proceeds from the Top-up Placing” of this announcement. There has been no change in the capital structure of our Group since then. As of June 30, 2023, the issued share capital of the Company was US\$24,079.6458 and the number of Share in issue was 240,796,458 of US\$0.0001 each.

As of June 30, 2023, we had cash and cash equivalents of RMB1,275.0 million (which was RMB994.3 million as of December 31, 2022), which were denominated in RMB, USD or HKD. As of June 30, 2023, we had interest-bearing bank and other borrowings of an aggregate amount of RMB24.2 million (which was RMB71.2 million as of December 31, 2022), which were denominated in RMB with interest rates ranging from 3.50% to 4.09% 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.

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 June 30, 2023, we did not have any contingent liabilities.

Gearing Ratio

As of June 30, 2023, our gearing ratio, being our total interest-bearing bank and other borrowings divided by our total equity as of the end of the period and multiplied by 100%, was 1.1%.

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 or HKD-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, 2022 and June 30, 2023.

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 RMB29.9 million (which was RMB17.5 million for the six months ended June 30, 2022), 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

Save as disclosed in the sections headed “Use of Proceeds from Global Offering” and “Use of Proceeds from the Top-up Placing” in this announcement, we did not have any existing plan for acquiring other material investments or capital assets as of the date of this announcement.

INTERIM DIVIDENDS

The Board has resolved not to recommend payment of an interim dividend for the six months ended June 30, 2023.

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 purposes set out in the Prospectus.

The following table sets out the intended use of the Net Proceeds, actual usage up to June 30, 2023, as well as the expected timeline for utilization:

| | Net Proceeds and utilization | | | | | Expected timeline for utilization ⁽¹⁾ |
|--|----------------------------------|--------------------------------|---|-------------------------------------|--------------------------------------|--|
| | Amount available for utilization | Percentage of the Net Proceeds | Utilized amount during the six months ended June 30, 2023 | Utilized amount as of June 30, 2023 | Remaining amount as of June 30, 2023 | |
| | <i>HK\$ million</i> | | <i>HK\$ million</i> | <i>HK\$ million</i> | <i>HK\$ million</i> | |
| To expand our offline and online operations and enhance the integration between them | 541.3 | 69.9% | 168.7 | 331.8 | 209.5 | 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 | 74.8 | 9.6% | 11.3 | 19.7 | 55.1 | 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 | 74.8 | 9.6% | 7.7 | 11.1 | 63.7 | By the end of 2025 |
| For marketing and branding activities | 38.3 | 4.9% | 12.6 | 33.4 | 4.9 | By the end of 2025 |
| For working capital and general corporate purposes | 46.7 | 6.0% | — | 46.7 | — | — |
| Total | <u>775.9</u> | <u>100.0%</u> | <u>200.3</u> | <u>442.7</u> | <u>333.2</u> | |

Note:

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

As of the date of this announcement, the Group has utilized Net Proceeds of approximately HK\$470.1 million. The remaining Net Proceeds were deposited in banks as of the date of this announcement. The Group will gradually utilize the Net Proceeds in accordance with the intended purposes as set out in the Prospectus.

USE OF PROCEEDS FROM THE TOP-UP PLACING

On March 22, 2023, the Company entered into a placing and subscription agreement (the "**Placing and Subscription Agreement**") with Action Thrive Group Limited, one of the controlling shareholders of the Company (the "**Vendor**") and the placing agents (the "**Placing Agents**"), pursuant to which (i) the Placing Agents have conditionally and severally (but not jointly or jointly and severally) agreed to act as agents for the purpose of procuring, on a best effort basis, not less than six purchasers for 10,400,000 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 10,400,000 new Shares (the "**Subscription Shares**") at a price of HK\$52.67 per Share (the "**Subscription**").

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 strengthen the financial position of the Group and provide working capital to the Group. Accordingly, the Directors consider that the terms of the Placing and Subscription Agreement are normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

The completion of the Placing and the Subscription took place on March 24, 2023 and March 30, 2023, respectively. A total of 10,400,000 Shares have been successfully placed at a price of HK\$52.67 per Sale Share to not less than six placees (the "**Placees**") procured by the Placing Agents. The closing price of the Company as stated in the daily quotation sheet issued by the Stock Exchange on March 21, 2023, being the last full trading date prior to the date of the Placing and Subscription Agreement, was HK\$57.25 per Share. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Placees, 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 has become a substantial shareholder of the Company upon completion of the Placing.

The aggregate nominal value of the Subscription Shares is US\$1,040.00. The net price for the Subscription to the Company (after deduction of all relevant costs and expenses) is approximately HK\$51.89 per Subscription Share. The net proceeds of the Top-up Placing are approximately HK\$539.61 million. For details, please refer to the announcements of the Company dated March 22, 2023 and March 30, 2023 (the “**Announcements**”).

The following table sets out the intended use of the net proceeds from the Top-up Placing (the “**Top-up Placing Net Proceeds**”), actual usage up to June 30, 2023, as well as the expected timeline for utilization:

| | Top-up Placing Net Proceeds and utilization | | | | | |
|--|--|----------------------|-------------------|--------------------|----------------------|----------------------------------|
| | Amount | | Utilized | | Utilized | |
| | available | Percentage | amount | amount | Remaining | Expected |
| | for | of the Net | during the | as | amount as | timeline for |
| | utilization | Proceeds | six months | of June 30, | of June 30, | utilization⁽¹⁾ |
| | <i>HK\$</i> | | <i>ended June</i> | <i>2023</i> | <i>2023</i> | |
| | <i>million</i> | | <i>30, 2023</i> | <i>HK\$</i> | <i>HK\$</i> | |
| | | | <i>million</i> | <i>million</i> | <i>million</i> | |
| For the expansion of offline medical institutions | 323.77 | 60.0% | — | — | 323.77 | By the end of 2027 |
| For upgrading and deepening the integration of online healthcare platforms and enhancing connection and interaction between offline and online business of the Group | 107.92 | 20.0% | — | — | 107.92 | By the end of 2027 |
| For diversifying the Company’s product portfolio | 53.96 | 10.0% | — | — | 53.96 | By the end of 2027 |
| For standardizing healthcare solutions and improving the Company’s information technology systems | 53.96 | 10.0% | — | — | 53.96 | By the end of 2027 |
| Total | <u><u>539.61</u></u> | <u><u>100.0%</u></u> | <u><u>—</u></u> | <u><u>—</u></u> | <u><u>539.61</u></u> | |

Note:

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

As of the date of this announcement, the Group did not utilize any Top-up Placing Net Proceeds. The Group will gradually utilize the Top-up Placing Net Proceeds in accordance with the intended purposes as set out in the Announcements.

EMPLOYEES AND REMUNERATION POLICIES

As of June 30, 2023, the Group had 2,155 employees (which was 1,805 employees as of June 30, 2022). The following table sets forth a breakdown of the employees by function as of June 30, 2023:

| Functions | Number of employees | % of total employees |
|---|----------------------------|-----------------------------|
| Physicians and other medical professionals | 1,125 | 52% |
| Management, operations and others | 472 | 24% |
| Sales and marketing | 410 | 17% |
| Supply chain | 98 | 5% |
| Information technology and research and development | 50 | 2% |
| Total | <u>2,155</u> | <u>100%</u> |

For the six months ended June 30, 2023, the staff cost of Group amounted to approximately RMB166.9 million (which was approximately RMB119.6 million for the six months ended June 30, 2022), including pension and housing fund.

The Group provides competitive compensation packages. Remuneration packages for employees mainly comprise base salary and performance-based bonus. The Group sets performance targets for its employees primarily based on their position and department and periodically reviews 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 or will be offered to participate in the Pre-IPO Share Option Plan, Post-IPO Share Option Scheme and RSA Scheme (New Shares).

The Group believes it has maintained good relationships with its employees. The employees are not represented by a labor union. During the Reporting Period and up to the date of this announcement, the Group did not experience any strikes or any labor disputes with its employees which have had or are likely to have a material effect on its business.

To maintain and enhance the knowledge and skill levels of its workforce, the Group provides its employees with internal training, including orientation programs for new employees and technical training for existing employees. The Group also offers external training opportunities to its management team and medical professionals.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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 during the six months ended June 30, 2023, save and except for code provision C.2.1.

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.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules 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 standards specified in the Model Code during the six months ended June 30, 2023. 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 during the six months ended June 30, 2023.

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

During the six months ended June 30, 2023, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

MATERIAL LITIGATION

As of the date of this announcement, 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.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with the requirements under the Listing Rules. As of the date of this announcement, the Audit Committee comprises two independent non-executive Directors, namely, Mr. Li Tie (chairman of the Audit Committee) and Mr. Wu Taibing, and one non-executive Director, namely, Mr. Huang Jingsheng. 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.

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended June 30, 2023 and was of the opinion that such interim results had been prepared in accordance with the relevant accounting standards, laws and regulations, and that adequate disclosures have been made in accordance with the requirements of the Listing Rules. The unaudited interim results of the Group for the six months ended June 30, 2023 has not been reviewed by the auditor of the Company.

SUBSEQUENT EVENTS

On July 18, 2023, the Company (i) granted Post-IPO Share Options under the Post-IPO Share Option Scheme to 36 Employee Participants and 175 Service Providers to subscribe for an aggregate of 1,343,600 Shares, representing approximately 0.56% of the total issued Shares as of the date of this announcement, (ii) granted 1,828,200 RSA Scheme (New Shares) Awards involving a total of 1,828,200 Restricted Shares under the RSA Scheme (New Shares) to 36 Management Participants and 167 Service Providers, representing approximately 0.76% of the total issued Shares as of the date of this announcement, and (iii) granted 92,500 RSA Scheme (Existing Shares) Awards involving a total of 92,500 Restricted Shares under the RSA Scheme (Existing Shares) to 8 Service Providers, representing approximately 0.04% of the total issued Shares as of the date of this announcement.

As of the date of this announcement, (i) the number of Shares available for future grants under the scheme mandate limit of the Share Schemes is 19,867,845 Shares, (ii) the number of Shares available for future grants under the service provider sublimit of the Share Schemes is 11,242,987 Shares, and (iii) the number of Shares available for future grants pursuant to the RSA Scheme (Existing Shares) is 11,427,322 Shares. For details of the aforementioned grants, please refer to the Company's announcement dated July 18, 2023.

Save as disclosed above and in this announcement, there was no significant event which may affect the Group occurred after the Reporting Period.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND THE INTERIM REPORT ON THE WEBSITE OF THE STOCK EXCHANGE AND THE COMPANY

The interim result announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.gstzy.cn). The interim report for the six months ended June 30, 2023 containing all the information required by the Listing Rules will be dispatched to the Shareholders and made available on the above websites in due course.

GLOSSARY AND DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires:

| | |
|-------------------|---------------------------------------|
| “Audit Committee” | the audit committee of the Board |
| “Board” | the board of Directors of the Company |

| | |
|-----------------------------------|--|
| “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 announcement and for geographical reference only, reference herein to “China” and the “PRC” do not apply to Hong Kong, the Macau Special Administrative Region of the PRC 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) |
| “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 |
| “COVID-19” | Novel coronavirus pneumonia |
| “Designated Medical Institutions” | medical institutions designated by the relevant local medical insurance authority as ones that are permitted to treat patients covered by public medical insurance programs |
| “Director(s)” | director(s) of the Company |
| “Eligible Participant(s)” | <p>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);</p> <p>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</p> |

| | |
|---------------------------------------|--|
| “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 Share Options under the Post-IPO Share Option Scheme as an inducement to enter into employment contracts with members of the Group) |
| “GMP” | Good Manufacturing Practice of Pharmaceutical Products (藥品生產質量管理規範), which are guidelines and regulations issued to ensure that pharmaceutical products within those guidelines and regulations are consistently produced and controlled to the quality and standards appropriate for their intended use |
| “Group”, “our Group”, “we” or “us” | our Company, our subsidiaries and controlled affiliated entities controlled by us through contractual arrangements at the relevant time |
| “HK\$” or “HKD” | Hong Kong dollars and cents respectively, the lawful currency of Hong Kong |
| “HKFRS” | Hong Kong Financial Reporting Standards |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time |
| “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 our Company, and one of our controlling shareholders |

| | |
|---------------------------------------|---|
| “OMO” | online-merge-offline |
| “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 Share 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 |
| “Prospectus” | the prospectus of the Company published on November 30, 2021 |
| “Reporting Period” | the six-month period from January 1, 2023 to June 30, 2023 |
| “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 Board 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 Board 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 |
| “Share(s)” | ordinary share(s) in the share capital of the Company with nominal value of US\$0.0001 each |
| “Shareholder(s)” | holder(s) of the Shares |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “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, including the Post-IPO Share Option Scheme and the RSA Scheme (New Shares) |
| “subsidiary(ies)” | has the meaning ascribed thereto under the Listing Rules |
| “TCM” | traditional Chinese medicine |

| | |
|-----------------|---|
| “US\$” or “USD” | United States dollars, the lawful currency of the United States |
| “%” | percent |

By order of the Board
GUSHENGTANG HOLDINGS LIMITED
固生堂控股有限公司
Tu Zhiliang
Chairman of the Board

Hong Kong, August 21, 2023

As at the date of this announcement, the Board comprises Mr. TU Zhiliang as Chairman and executive Director, Mr. HUANG Jingsheng, Mr. LIU Kanghua and Mr. GAO Jian as non-executive Directors, Ms. JIN Xu, Mr. LI Tie and Mr. WU Taibing as independent non-executive Directors.