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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, 2022**

FINANCIAL HIGHLIGHTS

Revenue of the Group increased by 17.5% to RMB702.9 million for the six months ended June 30, 2022 from RMB598.2 million for the six months ended June 30, 2021.

Net profit of RMB55.8 million for the six months ended June 30, 2022 compared to net loss of RMB349.7 million in the corresponding period in 2021.

The adjusted net profit⁽¹⁾ increased by 40.1% to RMB64.3 million for the six months ended June 30, 2022 from RMB45.9 million for the six months ended June 30, 2021.

Note:

- (1) Adjustments to net profit or net loss include: (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 the Company; (ii) equity-settled share-based payment in relation to the share options granted under the Pre-IPO Share Option Plan as defined in the Prospectus; (iii) non-recurring expenses which mainly represented the legal and professional fees and miscellaneous expenses related to the Group's non-operating activities such as listing and group reorganization.

The Board is pleased to announce the unaudited consolidated interim results of the Group for the six months ended June 30, 2022 together with the comparative figures for the same period in 2021 as set out below.

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

For the six months ended June 30, 2022

	<i>Notes</i>	For the six months ended June 30, 2022 (Unaudited) RMB'000	2021 (Audited) RMB'000
REVENUE	4	702,902	598,189
Cost of sales		(504,007)	(330,113)
Gross profit		198,895	268,076
Other income and gains	5	11,611	10,347
Selling and distribution expenses		(91,267)	(195,190)
Administrative expenses		(51,331)	(60,171)
Fair value changes of convertible redeemable preferred shares and convertible bonds		—	(340,681)
Other expenses		(6,187)	(13,733)
Finance costs		(8,715)	(17,518)
Share of profits of associates		284	571
PROFIT/(LOSS) BEFORE TAX	6	53,290	(348,299)
Income tax credit/(expenses)	7	2,472	(1,435)
PROFIT/(LOSS) FOR THE PERIOD		55,762	(349,734)
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		(68,939)	(981)
<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		46,406	30,642
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX		(22,533)	29,661
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		33,229	(320,073)

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

(continued)

For the six months ended June 30, 2022

	<i>Notes</i>	For the six months ended June 30,	
		2022	2021
		<i>(Unaudited)</i>	<i>(Audited)</i>
		<i>RMB'000</i>	<i>RMB'000</i>
Profit/(loss) attributable to:			
Owners of the parent		55,477	(349,808)
Non-controlling interests		285	74
		<u>55,762</u>	<u>(349,734)</u>
Total comprehensive income/(loss) attributable to:			
Owners of the parent		32,944	(320,147)
Non-controlling interests		285	74
		<u>33,229</u>	<u>(320,073)</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
	9		
Basic			
— For profit/(loss) for the period (RMB cents)		0.24	(3.81)
Diluted			
— For profit/(loss) for the period (RMB cents)		<u>0.23</u>	<u>(3.81)</u>

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2022

	<i>Notes</i>	June 30, 2022 (Unaudited) RMB'000	December 31, 2021 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		67,639	64,803
Right-of-use assets		264,120	248,143
Goodwill	10	739,781	688,615
Other intangible assets		29,628	31,425
Investments in associates		5,791	11,004
Prepayments, other receivables and other assets		21,046	10,814
Deferred tax assets		46,496	40,164
		<hr/>	<hr/>
Total non-current assets		1,174,501	1,094,968
CURRENT ASSETS			
Inventories		78,796	77,364
Trade receivables	11	66,176	72,696
Prepayments, deposits and other receivables		110,036	109,294
Financial assets at fair value through profit or loss		2,501	3,207
Restricted cash	12	3,567	3,567
Cash and cash equivalents	12	937,765	1,030,704
		<hr/>	<hr/>
Total current assets		1,198,841	1,296,832
CURRENT LIABILITIES			
Trade and bills payables	13	134,541	161,332
Other payables and accruals		229,094	276,617
Interest-bearing bank and other borrowings	14	19,165	17,478
Lease liabilities		54,387	57,458
Provisions		121	121
Tax payable		6,803	8,129
		<hr/>	<hr/>
Total current liabilities		444,111	521,135
NET CURRENT ASSETS			
		<hr/>	<hr/>
		754,730	775,697
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<hr/>	<hr/>
		1,929,231	1,870,665

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

June 30, 2022

	<i>Notes</i>	June 30, 2022 (Unaudited) RMB'000	December 31, 2021 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	14	60,055	66,835
Lease liabilities		220,547	203,594
Other payables and accruals		51,251	44,638
Deferred tax liabilities		6,181	6,187
		<hr/>	<hr/>
Total non-current liabilities		338,034	321,254
		<hr/>	<hr/>
Net assets		1,591,197	1,549,411
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the Company			
Share capital	15	147	147
Reserves		1,590,248	1,548,747
		<hr/>	<hr/>
		1,590,395	1,548,894
Non-controlling interests		802	517
		<hr/>	<hr/>
Total equity		1,591,197	1,549,411
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2022

1 Basis of preparation

The interim condensed consolidated financial information for the six months ended June 30, 2022 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 December 31, 2021 and the Group's consolidated financial statements for the six months ended June 30, 2021 including in the Accountants' Report set forth in Appendix I to the prospectus dated November 30, 2021.

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 December 31, 2021, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period's financial information.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i>
<i>Annual Improvements to HKFRSs 2018–2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16 and HKAS 41

The application of these revised HKFRSs in the Reporting Period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these interim condensed consolidated financial statements.

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 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,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Revenue from contracts with customers	702,902	598,189

Disaggregated revenue information

For the six months ended
June 30,
2022 **2021**
RMB'000 **RMB'000**
(Unaudited) **(Audited)**

Types of goods or service

Healthcare solutions	687,507	588,872
Sale of healthcare products	15,395	9,317
	<u>702,902</u>	<u>598,189</u>

Timing of revenue recognition

Revenue from contracts with customers	<u>702,902</u>	<u>598,189</u>
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5 Other income and gains

For the six months ended
June 30,
2022 **2021**
RMB'000 **RMB'000**
(Unaudited) **(Audited)**

Interest income	4,928	1,760
Covid-19-related rent concessions from lessors	3,009	—
Fair value gains on financial assets at fair value through profit or loss, net	1,618	503
Government subsidies*	917	314
Rental income	513	857
Gain on disposal of the investment in an associate	310	—
Foreign exchange differences, net	—	6,486
Others	316	427
	<u>11,611</u>	<u>10,347</u>

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

6 Profit/(loss) before tax

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

	<i>Notes</i>	For the six months ended	
		June 30,	
		2022	2021
		RMB'000	RMB'000
		(Unaudited)	(Audited)
Cost of provision of healthcare solutions		495,124	325,132
Cost of sale of healthcare products		8,883	4,981
Depreciation of property, plant and equipment		13,730	10,538
Amortisation of other intangible assets [#]		2,237	1,825
Depreciation of right-of-use assets		34,846	27,867
Lease payments not included in the measurement of lease liabilities		4,839	1,554
Auditor's remuneration		500	—
Listing expenses*		—	11,216
Employee benefit expense (excluding directors' remuneration):			
Wages and salaries		99,767	94,673
Equity-settled share-base payments		1,127	43,748
Pension scheme contributions		18,673	12,477
		119,567	150,898
Fair value losses on convertible redeemable preferred shares		—	330,744
Fair value losses on convertible bonds		—	9,937
Fair value gain on financial assets at fair value through profit or loss, net**	5	(1,618)	(503)
Loss on disposal of items of property, plant and equipment*		204	—
(Reversal of impairment)/impairment of trade receivables*		(20)	534
Foreign exchange loss/(gain)***		3,533	(6,486)
Gain on disposal of the investment in an associate**	5	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 “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 period.

	For the six months ended	
	June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Current	3,865	8,590
Deferred	(6,337)	(7,155)
Total tax (credit)/charge for the period	(2,472)	1,435

8 Dividends

No dividend was proposed for the six months ended June 30, 2022 and 2021.

9 Earnings/(loss) per share attributable to ordinary equity holders of the parent

(a) Basic

The calculation of the basic earnings/(loss) per share amounts is based on the earnings or loss for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 230,396,458 (2021: 91,825,183) in issue during the period.

The calculations of basic earnings/(loss) per share are based on:

	For the six months ended	
	June 30,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent	<u><u>55,477</u></u>	<u><u>(349,808)</u></u>
	Number of shares	
Shares		
Weighted average number of ordinary shares in issue used in the basic earnings/(loss) per share calculation	<u><u>230,396,458</u></u>	<u><u>91,825,183</u></u>
Basic earnings/(loss) per share (RMB cents)	<u><u>0.24</u></u>	<u><u>(3.81)</u></u>

(b) Diluted

The calculation of the diluted earnings/(loss) per share amount is based on the profit/(loss) 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 exercise of all dilutive potential ordinary shares into ordinary shares.

The calculations of diluted earnings/(loss) per share are based on:

	For the six months ended	
	June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent	<u>55,477</u>	<u>(349,808)</u>
	Number of shares	
Shares		
Weighted average number of ordinary shares in issue	230,396,458	91,825,183
Effect of dilution — weighted average number of ordinary shares		
Share options and convertible shares	<u>7,675,568</u>	<u>—*</u>
Weighted average number of ordinary shares in issue used in the diluted earnings/(loss) per share calculation	<u>238,072,026</u>	<u>91,825,183</u>
Diluted earnings/(loss) per share (RMB cents)	<u>0.23</u>	<u>(3.81)</u>

* Because the diluted loss per share amount is decreased when taking the convertible shares into account, the convertible shares have an anti-dilutive effect on the basic loss per share and were ignored in the calculation of diluted loss per share during the period ended June 30, 2021.

10 Goodwill

	June 30, 2022	December 31, 2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
At the beginning of the period/year:		
Cost	691,165	547,660
Accumulated impairment	(2,550)	(2,550)
Net carrying amount	688,615	545,110
Acquisition of subsidiaries	51,166	143,505
At the end of the period/year	739,781	688,615

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, 2022	December 31, 2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within three months	52,230	66,971
Over three months to one year	12,532	5,129
Over one year	1,414	596
	66,176	72,696

The individual patients of the Group usually settle payments by cash or the government's national reimbursement programs. Payments by the PRC government's national reimbursement programs 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 national reimbursement programs. Corporate customers will normally settle the amounts by bank transfers within 90 days after the transaction date.

12 Cash and cash equivalents

	June 30, 2022	December 31, 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Cash and bank balances	631,332	634,271
Non-pledged time deposits with original maturity of less than three months when acquired	310,000	400,000
	941,332	1,034,271
Less: Restricted cash	(3,567)	(3,567)
Cash and cash equivalents	937,765	1,030,704
Denominated in:		
RMB	887,070	834,639
USD	1,098	1,888
HK\$	49,597	194,177
	937,765	1,030,704

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, 2022	December 31, 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Within three months	98,015	118,508
Over three months to one year	27,865	26,940
Over one year	8,661	15,884
	134,541	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.

14 Interest-bearing bank and other borrowings

	June 30, 2022			December 31, 2021		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loan — unsecured	4.04–4.50	2023	10,776	4.04–4.09	2022	9,508
Other borrowing	6.00	2023	8,389	6.00	2022	7,970
			19,165			17,478
Non-current						
Bank loans — unsecured	4.04–4.50	2023–2024	13,914	4.20–5.60	2023–2024	19,017
Other borrowing	6.00	2023–2029	46,141	6.00	2023–2029	47,818
			60,055			66,835
			79,220			84,313

	June 30, 2022	December 31, 2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)

Analysed into:

Bank loans:

Within one year or on demand	10,776	9,508
In the second year	10,876	9,508
In the third to fifth years, inclusive	3,038	9,509
	24,690	28,525

Other borrowing:

Within one year or on demand	8,389	7,970
In the second year	8,389	7,970
In the third to fifth years, inclusive	33,557	23,909
Beyond five years	4,195	15,939
	54,530	55,788
	79,220	84,313

Notes:

- (a) Except for other borrowings, which are denominated in USD, all interest-bearing bank loans are in RMB.
- (b) No assets were pledged to obtain financing as at June 30, 2022 and December 31, 2021.
- (c) The Group's bank and other facilities amounted to RMB509,393,000 (December 31, 2021: RMB569,393,000), of which RMB88,447,000 (December 31, 2021: RMB92,282,000) had been utilized as at June 30, 2022.

15 Share capital

Shares

	June 30, 2022	December 31, 2021
	<i>USD'000</i>	<i>USD'000</i>
Authorised:		
264,430,287 (2021: 264,430,287) ordinary shares of USD0.0001 each	<u>26</u>	<u>26</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Issued and fully paid:		
230,396,458 (2021: 230,396,458) ordinary shares of USD0.0001(equivalent to RMB0.0006) each	<u>147</u>	<u>147</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

We are a TCM healthcare service provider in China. Through our offline medical institutions and online healthcare platforms, we provide customers with a comprehensive range of TCM healthcare services and products to address their diverse medical and healthcare management needs. Focusing on primary care, we have established a TCM platform with the integration of online healthcare platforms and offline medical institutions and the combination of TCM and western medicine, providing customers with comprehensive healthcare solutions throughout the whole process of disease diagnosis and treatment and healthcare management. Our TCM platform has 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 adopting the business model integrated online healthcare platforms and offline medical institutions. The core purpose of such business model is 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. We started to expand offline healthcare service to online healthcare platforms and further integrated our offline medical institutions with online healthcare platforms in 2018. We believe we are one of the first TCM healthcare service providers to utilize our online healthcare platforms and effectively connect our 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 online healthcare platforms and offline TCM medical institutions, 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. We focus on the customers' daily primary care, aiming to achieve long-term follow-up and healthcare management for customers.

Standardized and digitalized operations.

1. We have established a digital clerk system on 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 (CRM) system on 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 operation 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, thereby conducting compliance control leveraging information technologies.
4. We have built a closed-loop enterprise resource planning (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 *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 (DRG) payment mechanism in respect of TCM healthcare services, providing more support to TCM healthcare services and products on 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 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 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), 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 TCM 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 grass-roots level.

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, 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 that period. Our revenue derived from sale of healthcare products for the six months ended June 30, 2022 was primarily affected by the type and volume of valuable medicinal and nourishment sold during that period, 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 actively promoted our business development in China. As of June 30, 2022, we owned and operated 44 medical institutions in Beijing, Shanghai, Guangzhou, Shenzhen, Foshan, Zhongshan, Fuzhou, Nanjing, Suzhou, Ningbo and Wuxi, 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, 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 product as of June 30, 2022. Moreover, we had established collaborative relationships with 10 third-party online platforms as of June 30, 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. 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 to further expand our offline medical service network. 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 June 30, 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.

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 grass-roots level in an orderly manner. In April 2022, we established a medical consortium with Wenzhou Hospital of Traditional Chinese Medicine (溫州市中醫院) with a collaboration term of five years. Pursuant to the relevant collaboration agreement, we are allowed to use “Member Unit of the Medical Group of Wenzhou Hospital of Traditional Chinese Medicine (溫州市中醫院醫療集團成員單位)” in our designated out-patient departments to be established in Wenzhou, Zhejiang Province. Wenzhou Hospital of Traditional Chinese Medicine also agreed to assign physicians (attending physicians or above) to serve at our designated out-patient departments to be established in Wenzhou, Zhejiang Province.

As a testament to our effective customer acquisition and retention strategies, we have achieved significant 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,	
	2022	2021
New customers ⁽¹⁾	246,325	227,500
Accumulated customers at the end of each period ⁽²⁾	2,427,150	1,881,505
Customer visits (thousands)	1,323	1,181
Accumulated customer visits at the end of each period (thousands)	11,253	8,437
Customer return rate ⁽³⁾ (%)	66.9	61.5
Average spending per customer visit (RMB)	531	507

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.

Through our dedicated efforts, our members have shown higher loyalty and consumption willingness compared with our other customers. Also, we are committed to attracting more customers to join our membership program. The following table sets forth certain key information in connection with our membership program for the periods indicated.

	Six months ended June 30,	
	2022	2021
Number of members who had made any spending in our medical service network	99,201	74,877
Member visits (thousands)	366	326
Member return rate ⁽¹⁾ (%)	87.6	87.4

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.

Set forth below are major accomplishments achieved by us during the Reporting Period.

1. Among all TCM healthcare service providers in China with both offline and online medical service network, we had:
 - the largest number of TCM physicians as of June 30, 2022;
 - the largest number of offline medical institutions as of June 30, 2022; and
 - the largest number of cities covered by offline medical institution network as of June 30, 2022.
2. Among all private TCM healthcare service providers in China with both offline and online medical service network, we recorded the highest revenue generated from providing healthcare solutions for the six months ended June 30, 2022.

Impact of the COVID-19 Pandemic

The outbreak and spread of the COVID-19 pandemic have materially and adversely affected global economy. In light of the COVID-19 pandemic, local healthcare administrative authorities in China have imposed controls on healthcare services except for those in need for urgent medical attention. Patients suffering from other diseases generally avoided visiting medical institutions and pharmacies to minimize the risk of infection. During the Reporting Period, 23 offline medical institutions suspended operations for approximately 36 days on average. Specifically, during the Reporting Period, an offline medical institution in Beijing suspended operations for three days, five offline medical institutions in Guangzhou, Guangdong Province suspended operations for approximately 11 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 26 days on average, seven offline medical institutions in Shanghai suspended operations for approximately 53 days on average, and three offline medical institutions in Suzhou, Jiangsu Province suspended operations for approximately 74 days on average. The continuance of the COVID-19 pandemic and the government control on offline business 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 health awareness of the public in China. Healthcare consumption per capita in China is expected to increase from RMB2,115 in 2021 to RMB4,359 in 2030, while its proportion in total consumption per capita is expected to increase from 8.8% in 2021 to 9.8% in 2030, according to Frost & Sullivan. 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.

Although the 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, we will continue to closely monitor the indicators of the sporadic outbreak and continuous spread of the COVID-19 pandemic and proactively take timely measures to prevent its transmission within our medical service network. 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 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,				Year on year fluctuation (%)
	2022		2021		
	Revenue	% of total	Revenue	% of total	
	(RMB'000)	(%)	(RMB'000)	(%)	
	(Unaudited)		(Audited)		
Provision of healthcare solutions	687,507	97.8	588,872	98.4	16.7
Sale of healthcare products	15,395	2.2	9,317	1.6	65.2
Total	702,902	100.0	598,189	100.0	17.5

Our revenue derived from provision of healthcare solutions increased by 16.7% from RMB588.9 million for the six months ended June 30, 2021 to RMB687.5 million for the six months ended June 30, 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. Our revenue derived from sale of healthcare products increased by 65.2% from RMB9.3 million for the six months ended June 30, 2021 to RMB15.4 million for the six months ended June 30, 2022, primarily attributable to incremental sales contributed by new customers.

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 (國家醫保報銷方案) 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 periods indicated:

	Six months ended June 30,		2021		Year on year fluctuation (%)
	2022	% of total revenue	Revenue (RMB'000)	% of total revenue	
	Revenue (RMB'000)	(%) (Unaudited)	Revenue (RMB'000)	(%)	
National reimbursement programs	183,514	26.1	168,091	28.1	9.2
— <i>Social pooling</i>	98,923	14.1	79,576	13.3	24.3
— <i>Individual account</i>	84,591	12.0	88,515	14.8	(4.4)
Others	519,388	73.9	430,098	71.9	20.8
Total	702,902	100.0	598,189	100.0	17.5

The proportion of our revenue derived from settlement through national reimbursement programs in our total revenue decreased from 28.1% for the six months ended June 30, 2021 to 26.1% for the six months ended June 30, 2022, primarily due to the increased revenue generated by our online healthcare platforms which was not covered by national reimbursement programs.

Revenue by Channel

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

	Six months ended June 30,		2021		Year on year fluctuation (%)
	2022	% of total revenue (%) (Unaudited)	Revenue (RMB'000)	% of total revenue (%)	
Offline medical institutions ⁽¹⁾	581,382	82.7	541,453	90.5	7.4
Online healthcare platforms	121,520	17.3	56,736	9.5	114.2
Total	702,902	100.0	598,189	100.0	17.5

Note:

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

Our revenue derived from offline medical institutions increased by 7.4% from RMB541.5 million for the six months ended June 30, 2021 to RMB581.4 million for the six months ended June 30, 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 114.2% from RMB56.7 million for the six months ended June 30, 2021 to RMB121.5 million for the six months ended June 30, 2022, primarily because (i) our online channels took over the business of certain offline medical institutions which suspended operations due to the COVID-19 pandemic; (ii) our online business rapidly ramped up in certain geographical regions such as Henan Province, Sichuan Province, Hubei Province and Hunan Province; and (iii) our online business continued to expand its coverage.

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 52.7% from RMB330.1 million for the six months ended June 30, 2021 to RMB504.0 million for the six months ended June 30, 2022.

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

	Six months ended June 30,				Year on year fluctuation (%)
	2022		2021		
	Cost of Sales (RMB'000)	% of total cost of sales (%)	Cost of Sales (RMB'000)	% of total cost of sales (%)	
Cost of physicians and cost of materials	389,343	77.2	330,113	100.0	17.9
Additional Operating Expenses for Offline Medical Institutions ⁽¹⁾	114,664	22.8	—	—	N/A
Total	504,007	100.0	330,113	100.0	52.7
Cost of sales — simulated adjustment⁽²⁾					
Cost of physicians and cost of materials	389,343	100.0	330,113	100.0	17.9
Total	389,343	100.0	330,113	100.0	17.9

Notes:

- (1) Additional Operating Expenses for Offline Medical Institutions that were previously recognized as selling and distribution expenses for the six months ended June 30, 2021 were recognized as cost of sales for the six months ended June 30, 2022.
- (2) Simulated analysis was presented by the management for the purpose of facilitating period to period 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 six months ended June 30, 2022, as compared to the six months ended June 30, 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 six months ended June 30, 2022, as compared to the six months ended June 30, 2021.

Under simulated adjustment, our cost of sales would increase by 17.9% from RMB330.1 million for the six months ended June 30, 2021 to RMB389.3 million for the six months ended June 30, 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 25.8% from RMB268.1 million for the six months ended June 30, 2021 to RMB198.9 million for the six months ended June 30, 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 periods indicated, in order to provide useful information to investors in understanding and evaluating our results:

	Six months ended June 30,			
	2022		2021	
	Gross Profit	Gross Profit	Gross Profit	Gross Profit
	(RMB'000)	(%)	(RMB'000)	(%)
	<i>(Unaudited)</i>			
Gross profit				
Provision of healthcare solutions	192,383	28.0	263,740	44.8
Sale of healthcare products	6,512	42.3	4,336	46.5
Total	198,895	28.3	268,076	44.8
Gross profit — simulated adjustment⁽¹⁾				
Provision of healthcare solutions	307,047	44.7	263,740	44.8
Sale of healthcare products	6,512	42.3	4,336	46.5
Total	313,559	44.6	268,076	44.8

Note:

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

Under simulated adjustment, our gross profit would increase by 17.0% from RMB268.1 million for the six months ended June 30, 2021 to RMB313.6 million for the six months ended June 30, 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 16.4% from RMB263.7 million for the six months ended June 30, 2021 to RMB307.0 million for the six months ended June 30, 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 increased by 50.2% from RMB4.3 million for the six months ended June 30, 2021 to RMB6.5 million for the six months ended June 30, 2022, which was generally in line with the increase in revenue derived from sale of healthcare products. Under simulated adjustment, our gross profit margin of provision of healthcare solutions would remain stable at 44.8% for the six months ended June 30, 2021 and 44.7% for the six months ended June 30, 2022. Our gross profit margin of sale of healthcare products decreased from 46.5% for the six months ended June 30, 2021 to 42.3% for the six months ended June 30, 2022, primarily due to the sales promotion conducted by our online healthcare platforms to attract new customers.

Other Income and Gains

Our other income and gains increased by 12.2% from RMB10.3 million for the six months ended June 30, 2021 to RMB11.6 million for the six months ended June 30, 2022, primarily attributable to (i) an increase of RMB3.2 million in interest income; and (ii) the rent concessions from lessors related to the COVID-19 pandemic of RMB3.0 million, which were partially offset by a decrease of RMB6.5 million in net foreign exchange differences.

Selling and Distribution Expenses

	Six months ended June 30,				Year on year fluctuation (%)
	2022	2021	% of total selling and distribution expenses (RMB'000)	% of total selling and distribution expenses (%)	
Regional operating expenses	89,657	98.2	175,199	89.8	(48.8)
Equity-settled share-based payments	—	—	18,621	9.5	(100.0)
Third-party client acquisition costs	1,610	1.8	1,370	0.7	17.5
Total	<u>91,267</u>	<u>100.0</u>	<u>195,190</u>	<u>100.0</u>	(53.2)

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 53.2% from RMB195.2 million for the six months ended June 30, 2021 to RMB91.3 million for the six months ended June 30, 2022, primarily attributable to (i) a decrease of RMB18.6 million in equity-settled share-based payments mainly as a result of an one-off share-based payment we incurred during the six months ended June 30, 2021; and (ii) a decrease of RMB85.5 million in regional operating expenses as compared to that for the six months ended June 30, 2021 as a result of the Operational Restructuring.

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 resource and outstanding service capability. We believe that our multi-channel customer acquisition strategies enable us to expand our customer base with relatively low customer acquisition costs. 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.

During the Reporting Period, 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. In comparison, for the six months ended June 30, 2021, 96% of our new customers were acquired by our proprietary medical institutions, pharmacies, online healthcare platforms and flagship stores, while 4% of our new customers were introduced by third-party online platforms that we collaborated with. Third-party client acquisition costs incurred for the six months ended June 30, 2021 and 2022, respectively, amounted to RMB1.4 million and RMB1.6 million, respectively.

Administrative Expenses

Our administrative expenses decreased by 14.7% from RMB60.2 million for the six months ended June 30, 2021 to RMB51.3 million for the six months ended June 30, 2022, primarily attributable to a decrease of RMB16.0 million in equity-settled share-based payments mainly as a result of an one-off share-based payment we incurred during the six months ended June 30, 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 RMB340.7 million of the convertible redeemable preferred shares and convertible bonds for the six months ended June 30, 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 loss. Our other expenses decreased by 54.9% from RMB13.7 million for the six months ended June 30, 2021 to RMB6.2 million for the six months ended June 30, 2022, primarily because there were no further listing expenses incurred during the six months ended June 30, 2022.

Finance Costs

Our finance cost decreased by 50.3% from RMB17.5 million for the six months ended June 30, 2021 to RMB8.7 million for the six months ended June 30, 2022, primarily attributable to the repayment of short-term bank loans in the second half of 2021 and the first half of 2022.

Income Tax Credit/(Expenses)

We recorded income tax credit of RMB2.5 million for the six months ended June 30, 2022, compared to income tax expenses of RMB1.4 million for the six months ended June 30, 2021, primarily attributable to the new preferential tax policy for small and micro-sized enterprises issued by the State Taxation Administration.

Profit/(Loss) for the Period

We recorded net profit of RMB55.8 million for the six months ended June 30, 2022, compared to net loss of RMB349.7 million for the six months ended June 30, 2021, primarily attributable to (i) the continuous and rapid increase in the revenue generated by our existing offline medical institutions; (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 RMB340.7 million of the convertible redeemable preferred shares and convertible bonds for the six months ended June 30, 2021; (iii) a decrease of RMB35.2 million in equity-settled share-based payments mainly as a result of an one-off share-based payment we incurred during the six months ended June 30, 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 comparisons of operating performance from period to period 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 period 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 40.1% from RMB45.9 million for the six months ended June 30, 2021 to RMB64.3 million for the six months ended June 30, 2022, primarily attributable to the continuous and rapid increase in the revenue generated by our existing offline medical institutions.

	Six months ended June 30,	
	2022	2021
	(RMB'000)	(RMB'000)
	(Unaudited)	
Profit/(Loss) for the period	55,762	(349,734)
Adjustment for ⁽¹⁾ :		
Fair value changes of financial instrument	—	340,681
Equity-settled share-based payments	8,557	43,748
Non-recurring expense ⁽²⁾	—	11,216
	<hr/>	<hr/>
Adjusted net profit	<u>64,319</u>	<u>45,911</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) 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 June 30, 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 June 30, 2022, we had cash and cash equivalents of RMB937.8 million (which was RMB1,030.7 million as of December 31, 2021), which were denominated in RMB, USD or HKD. As of June 30, 2022, we had interest-bearing bank and other borrowings of an aggregate amount of RMB79.2 million (which was RMB84.3 million as of December 31, 2021), which were denominated in RMB or USD with interest rates 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.

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, 2022, we did not have any contingent liabilities.

Gearing Ratio

As of June 30, 2022, 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 5.0%.

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 June 30, 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 RMB17.5 million (which was RMB16.8 million for the six months ended June 30, 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 June 30, 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.

INTERIM DIVIDENDS

The Board has resolved not to recommend payment of an interim dividend for the six months ended June 30, 2022.

PROCEEDS FROM GLOBAL OFFERING AND ITS UTILISATION

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, 2022, as well as the expected timeline for utilization:

	Net Proceeds and utilization				Expected timeline for utilization ⁽¹⁾
	Amount available for utilization <i>HK\$ million</i>	Percentage of the Net Proceeds	Utilized amount as of June 30, 2022 <i>HK\$ million</i>	Remaining amount as of June 30, 2022 <i>HK\$ million</i>	
To expand our offline and online operations and enhance the integration between them	541.3	69.9%	75.1	466.2	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	74.8	9.6%	2.5	72.3	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%	1.6	73.2	By the end of 2025
For marketing and branding activities	38.3	4.9%	10.6	27.7	By the end of 2025
For working capital and general corporate purposes	46.7	6.0%	12.8	33.9	By the end of 2025
Total	<u>775.9</u>	<u>100.0%</u>	<u>102.6</u>	<u>673.3</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\$102.6 million from the global offering. The remaining Net Proceeds were deposited in banks as of the date of this announcement. The Group will gradually utilize the proceeds from the global offering in accordance with the intended purposes as set out in the Prospectus.

EMPLOYEES AND REMUNERATION POLICIES

As of June 30, 2022, the Group had 1,805 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 June 30, 2022:

Functions	Number of employees	% of total employees
Physicians and other medical professionals	953	52.8%
Management, operations and others	454	25.1%
Sales and marketing	282	15.6%
Supply chain	77	4.3%
Information technology and research and development	39	2.2%
Total	<u>1,805</u>	<u>100.0%</u>

For the six months ended June 30, 2022, total staff cost of the Group amounted to approximately RMB119.6 million (which was approximately RMB150.9 million for the six months ended June 30, 2021), 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 offered to participate in the Pre-IPO Share Option Plan.

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 provide its employees with internal training, including orientation programs for new employees and technical training for existing employees. The Group also offer 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, 2022, 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, 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 during the six months ended June 30, 2022.

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

During the six months ended June 30, 2022, 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. Jiang Xiaodong. 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, 2022 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, 2022 has not been reviewed by the auditor of the Company.

SUBSEQUENT EVENTS

There was no significant subsequent event which may affect the Group occurred after the Reporting Period and up to the date of this announcement.

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, 2022 containing all the information required by the Listing Rules will be despatched 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:

“associates”	has the meaning ascribed thereto under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Board”	the board of Directors of the Company
“CG Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“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
“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
“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
“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
“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, 2022 to June 30, 2022
“RMB” or “Renminbi”	the lawful currency of the PRC
“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
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“TCM”	traditional Chinese medicine

“US\$”, “USD” or
“U.S. dollars”

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 16, 2022

As of the date of this announcement, the Board comprises Mr. TU Zhiliang as Chairman and executive Director, Mr. JIANG Xiaodong, Mr. HUANG Jingsheng, Mr. XU Yongjiu, 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.