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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2023

FINANCIAL HIGHLIGHTS

Revenue of the Group increased by 43.0% to RMB2,323.4 million for the year ended December 31, 2023 from RMB1,624.6 million for the year ended December 31, 2022.

Gross profit of the Group increased by 40.1% to RMB700.0 million for the year ended December 31, 2023 from RMB499.5 million for the year ended December 31, 2022.

The net profit increased by 39.6% to RMB252.9 million for the year ended December 31, 2023 from RMB181.2 million for the year ended December 31, 2022.

The adjusted net profit⁽¹⁾ increased by 53.6% to RMB304.7 million for the year ended December 31, 2023 from RMB198.4 million for the year ended December 31, 2022.

Note:

- (1) Adjustments to net profit include equity-settled share-based payments in relation to the (i) share options granted under the Pre-IPO Share Option Plan, (ii) share options granted under the Post-IPO Share Option Scheme, (iii) share awards granted under the restricted share award scheme (existing shares) adopted by the Board on September 9, 2022, and (iv) share awards granted under the RSA Scheme (New Shares).

The Board is pleased to present the consolidated results of the Group for the year ended December 31, 2023 with the comparative figures for the same period in 2022 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Notes</i>	Year ended December 31,	
		2023	2022
		RMB'000	RMB'000
			<i>(Restated)</i>
REVENUE	4	2,323,351	1,624,561
Cost of sales		<u>(1,623,352)</u>	<u>(1,125,025)</u>
Gross profit		699,999	499,536
Other income and gains	4	54,815	33,562
Selling and distribution expenses		(281,363)	(207,324)
Administrative expenses		(154,713)	(100,220)
Other expenses		(9,080)	(9,791)
Finance costs		(25,576)	(17,615)
Share of profits of associates		90	561
PROFIT BEFORE TAX	5	284,172	198,709
Income tax expense	6	(31,232)	(17,556)
PROFIT FOR THE YEAR		<u>252,940</u>	<u>181,153</u>
OTHER COMPREHENSIVE INCOME/(LOSS)			
<i>Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of foreign operations		(36,081)	(122,813)
<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		41,095	114,557
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		<u>5,014</u>	<u>(8,256)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>257,954</u>	<u>172,897</u>

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

		Year ended December 31,	
	<i>Notes</i>	2023	2022
		<i>RMB'000</i>	<i>RMB'000</i>
			<i>(Restated)</i>
Profit attributable to:			
Owners of the parent		252,202	180,854
Non-controlling interests		738	299
		<u>252,940</u>	<u>181,153</u>
Total comprehensive income attributable to:			
Owners of the parent		257,216	172,598
Non-controlling interests		738	299
		<u>257,954</u>	<u>172,897</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
		<i>RMB</i>	<i>RMB</i>
			<i>(Restated)</i>
Basic			
— For profit for the year	8	<u>1.06</u>	<u>0.79</u>
Diluted			
— For profit for the year	8	<u>1.03</u>	<u>0.76</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		December 31, 2023	December 31, 2022	January 1, 2022
<i>Notes</i>		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(Restated)</i>	<i>(Restated)</i>
NON-CURRENT ASSETS				
Property, plant and equipment		109,655	70,863	64,803
Right-of-use assets		333,798	268,469	248,143
Goodwill	9	984,688	816,672	688,615
Other intangible assets		24,759	27,757	31,425
Investments in associates		30,534	6,069	11,004
Prepayments, other receivables and other assets		23,928	28,407	10,814
Deferred tax assets		34,385	40,408	40,164
		<u>1,541,747</u>	<u>1,258,645</u>	<u>1,094,968</u>
Total non-current assets				
CURRENT ASSETS				
Inventories		152,950	104,855	77,364
Trade receivables	10	179,927	89,411	72,696
Prepayments, deposits and other receivables		155,723	135,583	109,294
Financial assets at fair value through profit or loss		35,004	35,432	3,207
Restricted cash		12,691	—	3,567
Cash and cash equivalents	11	1,301,300	994,330	1,030,704
		<u>1,837,595</u>	<u>1,359,611</u>	<u>1,296,832</u>
Total current assets				
CURRENT LIABILITIES				
Trade and bills payables	12	286,619	164,305	161,332
Other payables and accruals		294,681	299,958	276,617
Interest-bearing bank and other borrowings	13	16,428	18,214	17,478
Lease liabilities		76,846	57,418	57,458
Provisions		—	—	121
Tax payable		33,651	14,422	8,129
		<u>708,225</u>	<u>554,317</u>	<u>521,135</u>
Total current liabilities				
NET CURRENT ASSETS		<u>1,129,370</u>	<u>805,294</u>	<u>775,697</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,671,117</u>	<u>2,063,939</u>	<u>1,870,665</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

		December 31, 2023	December 31, 2022	January 1, 2022
	<i>Notes</i>	RMB'000	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(Restated)</i>	<i>(Restated)</i>
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	<i>13</i>	—	52,957	66,835
Lease liabilities		277,300	222,698	203,594
Other payables and accruals		81,504	56,062	44,638
Deferred tax liabilities		6,230	14,212	6,187
		<u>365,034</u>	<u>345,929</u>	<u>321,254</u>
Total non-current liabilities		365,034	345,929	321,254
Net assets		<u>2,306,083</u>	<u>1,718,010</u>	<u>1,549,411</u>
EQUITY				
Equity attributable to owners of the Company				
Share capital		159	147	147
Shares held for share award schemes		(110,924)	(20,121)	—
Treasury shares		(12,146)	—	—
Reserves		2,427,909	1,736,863	1,548,747
		<u>2,304,998</u>	<u>1,716,889</u>	<u>1,548,894</u>
Non-controlling interests		1,085	1,121	517
		<u>1,085</u>	<u>1,121</u>	<u>517</u>
Total equity		<u>2,306,083</u>	<u>1,718,010</u>	<u>1,549,411</u>

NOTES TO FINANCIAL STATEMENTS

1. Corporate and group information

GUSHENGTANG HOLDINGS LIMITED (the “**Company**”) is an exempted company with limited liability incorporated in the Cayman Islands under the laws of the Cayman Islands on May 8, 2014. The registered office of the Company is located at Harneys Fiduciary (Cayman) Limited, 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman KY1-1002, Cayman Islands.

The Company is an investment holding company. The Company’s subsidiaries were principally engaged in the provision of a variety of healthcare businesses, including the provision of healthcare services and sale of healthcare products.

2.1 Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain financial instruments, including financial assets at fair value through profit or loss and payables for the cash settled share-based payment arrangements which have been measured at fair value. These financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

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

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

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

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

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

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

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

2.2 Changes in accounting policies and disclosures

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

HKFRS 17	<i>Insurance Contracts</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>
<i>Amendments to HKAS 12</i>	<i>International Tax Reform — Pillar Two Model Rules</i>

The nature and the impact of the new and revised HKFRSs that are applicable to the Group are described below:

- (a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since January 1, 2023. The Group has disclosed the material accounting policy information in note 2 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.
- (b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.

- (c) Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions.

Prior to the initial application of these amendments, the Group applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. The Group has applied the amendments on temporary differences related to leases as at January 1, 2022. Upon initial application of these amendments, the Group recognised (i) a deferred tax asset for all deductible temporary differences associated with lease liabilities (provided that sufficient taxable profit is available), and (ii) a deferred tax liability for all taxable temporary differences associated with right-of-use assets at January 1, 2022, with cumulative effect recognised as an adjustment to the balances of retained profits and non-controlling interests at that date. The quantitative impact on the financial statements is summarised below.

Impact on the consolidated statements of financial position:

		Increase/(decrease)		
		As at	As at	As at
		December 31,	December 31,	January 1,
		2023	2022	2022
	<i>Note</i>	RMB'000	RMB'000	RMB'000
Assets				
Deferred tax assets	(i)	<u>6,411</u>	<u>4,633</u>	<u>4,525</u>
Total non-current assets		<u>6,411</u>	<u>4,633</u>	<u>4,525</u>
Total assets		<u><u>6,411</u></u>	<u><u>4,633</u></u>	<u><u>4,525</u></u>

		Increase/(decrease)		
		As at	As at	As at
		December 31,	December 31,	January 1,
		2023	2022	2022
<i>Note</i>	RMB'000	RMB'000	RMB'000	RMB'000
Liabilities				
Deferred tax liabilities	(i)	<u>1,506</u>	<u>8,757</u>	<u>6,251</u>
Total non-current liabilities		<u>1,506</u>	<u>8,757</u>	<u>6,251</u>
Total liabilities		<u>1,506</u>	<u>8,757</u>	<u>6,251</u>
Net assets		<u>4,905</u>	<u>(4,124)</u>	<u>(1,726)</u>
Equity				
Retained profit (included in other reserve)		<u>4,905</u>	<u>(4,124)</u>	<u>(1,726)</u>
Equity attributable to owners of the parent		<u>4,866</u>	<u>(4,177)</u>	<u>(1,737)</u>
Non-controlling interests		<u>39</u>	<u>53</u>	<u>11</u>
Total equity		<u>4,905</u>	<u>(4,124)</u>	<u>(1,726)</u>

Note (i): The deferred tax asset and the deferred tax liability arising from lease contracts of the same subsidiary have been offset in the statement of financial position for presentation purposes.

Impact on the consolidated statements of profit or loss:

	Increase/(decrease)	
	For the year ended	
	December 31,	
	2023	2022
	RMB'000	RMB'000
Income tax expense	(9,029)	2,398
Profit for the year	<u>9,029</u>	<u>(2,398)</u>
Attributable to:		
Owners of the parent	9,043	(2,440)
Non-controlling interests	(14)	42
	<u>9,029</u>	<u>(2,398)</u>
Total comprehensive income for the year		
Attributable to:		
Owners of the parent	9,043	(2,440)
Non-controlling interests	(14)	42
	<u>9,029</u>	<u>(2,398)</u>

Impact on the earnings per share attributable to ordinary equity holders of the parent:

	Increase/(decrease)	
	For the year ended	
	December 31,	
	2023	2022
	RMB'000	RMB'000
Basic earnings per share	<u>0.04</u>	<u>(0.01)</u>
Diluted earnings per share	<u>0.04</u>	<u>(0.01)</u>

The adoption of amendments to HKAS 12 did not have any material impact on the other comprehensive income and the consolidated statements of cash flows for the years ended December 31, 2023 and 2022.

2.3 Issued but not yet effective Hong Kong financial reporting standards

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

Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i> ¹
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current (the “2020 Amendments”)</i> ^{1,4}
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants (the “2022 Amendments”)</i> ^{1,4}
Amendments to HKAS 7 and HKFRS 7	<i>Supplier Finance Arrangements</i> ¹
Amendments to HKAS 21	<i>Lack of Exchangeability</i> ²

¹ Effective for annual periods beginning on or after January 1, 2023

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

³ No mandatory effective date yet determined but available for adoption

⁴ As a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

The management of the Group considers that these revised HKFRSs may result in changes in accounting policies but are unlikely to have a significant impact on the Group’s results of operations and financial position.

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, other income and gains

Revenue

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Revenue from contracts with customers	<u>2,323,351</u>	<u>1,624,561</u>

(i) Disaggregated revenue information

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Types of goods or service		
Healthcare solutions	2,287,100	1,595,717
Sale of healthcare products	<u>36,251</u>	<u>28,844</u>
	<u>2,323,351</u>	<u>1,624,561</u>

Timing of revenue recognition

Revenue from contracts with customers	<u>2,323,351</u>	<u>1,624,561</u>
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The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2023	2022
	RMB'000	RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Healthcare solutions	<u>26,082</u>	<u>38,834</u>

(ii) *Performance obligations*

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

Sale of healthcare products

Revenue from sale of healthcare products, such as valuable medicinal herbs and nourishment, is recognised at the point in time when control of the asset is transferred to the customer, the customer has full discretion to use the healthcare products, and there is no unfulfilled obligation that could affect the customer's acceptance of the healthcare products. Transactions are settled by payment from commercial insurance, the government's insurance schemes, third-party payment platforms, or directly paid by bank cards, third-party payment platforms or cash from customers.

Healthcare solutions

Revenue from healthcare solutions contains more than one performance obligation, including (i) the provision of consultation services, (ii) the sale of pharmaceutical products and (iii) traditional massage, moxibustion, acupuncture and other therapies. The Group allocates the transaction price to each performance obligation based on the relative stand-alone selling price. The control of services or pharmaceutical products is transferred at a point in time, and revenue is recognised when the customer obtains the control of the completed services or pharmaceutical products as the Group has satisfied its performance obligations with a present right to payment and the collection of the consideration is probable. Transactions are settled by payment from commercial insurance, the government's insurance schemes, third-party payment platforms, or directly paid by bank cards, third-party payment platforms or cash from customers.

The Group has established an integrated membership program, which provide customers with significant rights after purchasing membership cards with a validity period of one year. The Group allocates the transaction prices of prepaid membership cards to each performance obligation according to their stand-alone selling prices. Revenue is recognised when the membership rights are redeemed for control of the goods and services.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) are as follows:

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Amounts expected to be recognised as revenue within one year	<u>42,234</u>	<u>26,082</u>
<i>Other income and gains</i>		
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income	18,474	14,055
Government grants*	14,979	11,779
Foreign exchange differences, net	13,337	—
Fair value gains on financial assets at fair value through profit or loss, net	4,394	1,093
Rental income	1,355	1,084
Gain on disposal of a partial interest in an associate	303	310
Covid-19-related rent concessions from lessors	—	4,355
Others	1,973	886
Total other income and gains	<u>54,815</u>	<u>33,562</u>

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

5. Profit before tax

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

	2023	2022
	RMB'000	RMB'000
Cost of provision of healthcare solutions	1,599,848	1,107,644
Cost of sale of healthcare products	23,504	17,381
Depreciation of property, plant and equipment [#]	30,384	31,627
Amortisation of other intangible assets [#]	4,294	4,204
Depreciation of right-of-use assets [#]	85,478	72,062
Lease payments not included in the measurement of lease liabilities	9,616	4,045
Auditors' remuneration	3,980	3,828
Employee benefit expense (excluding directors' remuneration):		
— Wages and salaries	318,658	231,005
— Pension scheme contributions	40,214	39,911
— Equity-settled share option expenses	4,783	2,272
— Equity-settled share award expenses	21,841	—
	<u>385,496</u>	<u>273,188</u>
Foreign exchange (gain)/loss	(13,337)**	4,550*
Fair value gain on financial assets at fair value through profit or loss, net**	(4,394)	(1,093)
Impairment of trade receivables*	109	679
Loss on disposal of items of property, plant and equipment*	268	285
Gain on disposal of a partial interest in an associate**	(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.

6. Income tax expenses

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.

Chinese Mainland

Pursuant to the PRC Income Tax Law and the respective regulations, a subsidiary which operates in PRC is subject to corporate income tax at a rate of 25% on the taxable income. Certain subsidiaries of the Group in PRC are regarded as “small and micro enterprises” and, accordingly, were entitled to a preferential income tax rate of 5% during the reporting period. Certain subsidiaries of the Group are qualified as high technology enterprises and hence are granted a preferential CIT rate of 15% which was effective in three years from 2022 to 2025.

Hong Kong

No provision for Hong Kong profits tax has been made as the company had no assessable profits derived from or earned in Hong Kong during the reporting period. The subsidiary incorporated in Hong Kong is subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year.

	2023	2022
	RMB'000	RMB'000
		<i>(Restated)</i>
Current	33,191	11,501
Deferred	(1,959)	6,055
Total tax charge for the year	<u>31,232</u>	<u>17,556</u>

7. Dividends

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Special — HKD0.41 (2022: Nil) per ordinary share	<u>89,763</u>	<u>—</u>

The Board does not recommend any final dividend for the year ended December 31, 2023 (2022: Nil).

8. Earnings per share attributable to ordinary equity holders of the parent

The calculation of the basic earnings per share amount is based on the earnings for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 237,536,154 (2022: 230,272,209) in issue during the year, as adjusted to reflect the rights issue during the year.

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

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i> <i>(Restated)</i>
Earnings		
Earnings attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	<u>252,202</u>	<u>180,854</u>
Number of shares		
Shares		
Weighted average number of ordinary shares in issue	238,652,490	230,396,458
Weighted average number of ordinary shares held for the share award schemes	<u>(1,116,336)</u>	<u>(124,249)</u>
Weighted average number of ordinary shares in issue used in the basic earnings per share calculation	237,536,154	230,272,209
Effect of dilution — weighted average number of ordinary shares:		
Share options and awards	<u>6,697,835</u>	<u>8,777,679</u>
Total	<u>244,233,989</u>	<u>239,049,888</u>

9. Goodwill

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
At the beginning of the year:		
Cost	819,222	691,165
Accumulated impairment	<u>(2,550)</u>	<u>(2,550)</u>
Net carrying amount	<u>816,672</u>	<u>688,615</u>
Cost at the beginning of the year, net of accumulated impairment	816,672	688,615
Acquisition of subsidiaries	<u>168,016</u>	<u>128,057</u>
At the end of the year	<u>984,688</u>	<u>816,672</u>
At the end of the year:		
Cost	987,238	819,222
Accumulated impairment	<u>(2,550)</u>	<u>(2,550)</u>
Net carrying amount	<u>984,688</u>	<u>816,672</u>

10. Trade receivables

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade receivables	181,222	90,740
Impairment	<u>(1,295)</u>	<u>(1,329)</u>
Net carrying amount	<u>179,927</u>	<u>89,411</u>

The individual patients of the Group usually settle payments by cash or the government's social insurance schemes. Payments by the PRC government's social insurance schemes will normally be settled in 30 to 365 days from the transaction date by the local social insurance bureau or similar government departments which are responsible for the reimbursement of medical expenses for patients who are covered by the government's medical insurance schemes. Corporate customers will normally settle the amounts by bank transfers within 90 days after the transaction date.

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Within six months	173,669	84,146
Six months to one year	5,571	4,448
Over one year	687	817
	<u>179,927</u>	<u>89,411</u>
Total	<u>179,927</u>	<u>89,411</u>

11. Cash and cash equivalents and restricted cash

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Cash and bank balances	1,090,762	684,330
Non-pledged time deposits with original maturity of less than three months when acquired	223,229	310,000
	<u>1,313,991</u>	<u>994,330</u>
Subtotal	1,313,991	994,330
Less: Restricted cash	(12,691)	—
	<u>1,301,300</u>	<u>994,330</u>
Cash and cash equivalents	<u>1,301,300</u>	<u>994,330</u>
Denominated in:		
RMB	1,129,333	935,646
USD	106,526	8,240
HKD	78,132	50,444
	<u>1,313,991</u>	<u>994,330</u>
	<u>1,313,991</u>	<u>994,330</u>

Note:

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

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

12. Trade and bills payables

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade payables	247,145	162,308
Bills payables	39,474	1,997
Total	<u>286,619</u>	<u>164,305</u>

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:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Within three months	235,281	114,621
Three months to one year	31,628	38,379
Over one year	19,710	11,305
Total	<u>286,619</u>	<u>164,305</u>

13. Interest-bearing bank and other borrowings

	<u>2023</u>			<u>2022</u>		
	Effective interest rate (%)	Maturity	<i>RMB'000</i>	Effective interest rate (%)	Maturity	<i>RMB'000</i>
Current						
Bank loan — unsecured	3.25–4.15	2024	16,428	4.04–4.50	2023	9,508
Other borrowing	—	—	—	6.00	2023	8,706
Total — current			16,428			18,214
Non-current						
Bank loans — unsecured	—	—	—	4.04–4.50	2024–2025	9,428
Other borrowing	—	—	—	6.00	2023–2029	43,529
Total — non-current			—			52,957
Total			<u>16,428</u>			<u>71,171</u>

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Analysed into:		
Bank loans:		
Within one year or on demand	16,428	9,508
In the second year	—	9,428
	<hr/>	<hr/>
Subtotal	16,428	18,936
	<hr/>	<hr/>
Other borrowing:		
Within one year or on demand	—	8,706
In the second year	—	8,706
In the third to fifth years, inclusive	—	26,118
Beyond five years	—	8,705
	<hr/>	<hr/>
Subtotal	—	52,235
	<hr/>	<hr/>
Total	16,428	71,171
	<hr/> <hr/>	<hr/> <hr/>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

As a TCM healthcare service provider in China, we are dedicated to providing 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 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 recent years, multiple government policies favorable to TCM healthcare industry have been promulgated, promoting the accessibility and quality of TCM medical resources. Moreover, the outbreak of public health events has improved public awareness on health and sanitation and promoted the nationwide receptiveness of TCM healthcare services and products.

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 (國醫大師), National Famous TCM Doctors (全國名中醫) and Provincial Famous TCM Doctors (省級名中醫), 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 year ended December 31, 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 year. Our revenue derived from sale of healthcare products for the year ended December 31, 2023 was primarily affected by the type and volume of valuable medicinal and nourishment sold during the year, the unit price of which may vary significantly. Generally, when the sales volume of valuable medicinal and nourishment with high unit price increases, we would generate more revenue from sale of healthcare products.

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. During the Reporting Period, we had expanded our business footprint in China through both strategic acquisitions and organic growth. In particular, we strategically acquired the following medical institutions for the year ended December 31, 2023.

- 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) (“**Kunshan Mingtai**”) to acquire 100% equity interest of Kunshan Mingtai.
- In March 2023, we 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) (“**Wuxi Litongfeng Hospital**”) to acquire 100% equity interest of Wuxi Litongfeng Hospital.
- 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) (“**Wuhan Yide**”) to acquire 100% equity interest of Wuhan Yide.
- In July 2023, we entered into an equity transfer agreement and a supplemental agreement with the shareholder of Shanghai Baozhongtang TCM Out-patient Co., Ltd. (上海寶中堂中醫門診部有限公司) (“**Baozhongtang Laoshan**”) to acquire 100% equity interest of Baozhongtang Laoshan.
- In July 2023, we entered into an equity transfer agreement with the shareholders of Shanghai Baozhongtang Eshan TCM Out-patient Co., Ltd. (上海寶中堂峨山中醫門診部有限公司) (“**Baozhongtang Eshan**”), to acquire 100% equity interest of Baozhongtang Eshan.

- In December 2023, we entered into an equity transfer agreement with the shareholders of Shanghai Juyan Healthcare Management Consulting Co., Ltd. (上海巨衍健康管理諮詢有限公司) (“**Shanghai Juyan**”) to acquire 100% equity interest of Shanghai Juyan.
- In December 2023, we entered into an equity transfer agreement with the shareholders of Suzhou Gusu Aimin Clinic Co., Ltd. (蘇州姑蘇愛民診所有限公司) (“**Aimin Clinic**”) to acquire 100% equity interest of Aimin Clinic.

Such acquisitions further expanded our offline medical service network and enlarged our market share in East China and Central China.

Furthermore, we established two new medical institutions, 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)) and Fuzhou Gushengtang Luyi TCM Out-patient Department Co., Ltd. (福州固生堂陸壹中醫門診有限公司).

As a result of our dedicated efforts in business expansion over years, our nationwide medical service network comprises offline medical institutions and online healthcare platforms. As of December 31, 2023, we owned and operated 56 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 a unified brand image. We unify the brand names and decorations of newly acquired medical institutions after the acquisitions, improving awareness and influence of our brand name “Gushengtang (固生堂).” In addition, we owned and operated a variety of online channels as of December 31, 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 December 31, 2023. Meanwhile, we were in collaboration with multiple third-party online platforms as of the same date, facilitating customers’ online appointment for offline services.

To stimulate the potential of medical consortia and introduce high-quality medical resources to the grass-roots level in an orderly manner, we have also developed our collaboration with public hospitals and TCM universities. As of December 31, 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 years indicated:

	Year ended December 31,	
	2023	2022
New customers ⁽¹⁾	803,973	551,999
Accumulated customers at the end of each year ⁽²⁾	3,536,797	2,732,824
Customer visits (thousands)	4,297	2,945
Accumulated customer visits at the end of each year (thousands)	17,171	12,874
Customer return rate ⁽³⁾ (%)	65.2	64.0
Average spending per customer visit (RMB)	541	552

Notes:

- (1) Refer to customers who received healthcare solutions or purchased healthcare products provided by us for the first time.
- (2) Refer to, as of the end of any financial year, the total number of customers who had ever visited our medical service network to receive any healthcare solution or purchase any healthcare product at any time on or before the end of such financial year.
- (3) Refer to, in respect of any financial year, a fraction (expressed as a percentage) equals to the number of returning customers in respect of such financial year divided by the total number of customers who had visited our medical service network to receive any healthcare solution or purchase any healthcare product at any time during such financial year.

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

	Year ended December 31,	
	2023	2022
Number of members who had made spending in our medical service network	364,482	203,108
Member visits (thousands)	1,568	897
Member return rate ⁽¹⁾ (%)	85.6	86.4

Note:

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

The surge in population infected COVID-19 pandemic in late 2022 and early 2023 caused immaterial impacts 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 monitor the indicators of the pandemic and take timely measures to minimize any potential negative impact on our operations.

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 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 2023, we obtained the Registration Approvals for Medical Institutions on TCM In-hospital Preparations for our Spleen-invigorating and Fat-reducing Ointment (健脾化脂膏), Songzhen Hair-Nourishing Granules (松貞益發顆粒), Kidney-Nourishing and Potency-Enhancing Ointment (養陽固精膏), Kidney-Tonic Semen-Enhancing Ointment (益腎填精膏), He Che Kidney Strengthening Ointment (河車固腎膏) and Pregnancy Maintenance Ointment (孕保膏). 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 years indicated:

	Year ended December 31,				Year on year fluctuation 2023/2022 (%)
	2023		2022		
	Revenue (RMB'000)	% of total (%)	Revenue (RMB'000)	% of total (%)	
Provision of healthcare solutions	2,287,100	98.4	1,595,717	98.2	43.3
Sale of healthcare products	36,251	1.6	28,844	1.8	25.7
Total	2,323,351	100.0	1,624,561	100.0	43.0

Our consolidated revenue increased by 43.0% from RMB1,624.6 million for the year ended December 31, 2022 to RMB2,323.4 million for the year ended December 31, 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 43.3% from RMB1,595.7 million for the year ended December 31, 2022 to RMB2,287.1 million for the year ended December 31, 2023, primarily attributable to the business expansion of our online healthcare platforms and the increased revenue generated by our newly acquired and existing offline medical institutions.

Revenue from Sale of Healthcare Products

Our revenue derived from sale of healthcare products increased by 25.7% from RMB28.8 million for the year ended December 31, 2022 to RMB36.3 million for the year ended December 31, 2023, primarily attributable to incremental sales contributed by new customers.

Revenue by Channel

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

	Year ended December 31,				Year on year fluctuation 2023/2022 (%)
	2023		2022		
	Revenue (RMB'000)	% of total (%)	Revenue (RMB'000)	% of total (%)	
Offline medical institutions ⁽¹⁾	2,037,122	87.7	1,364,921	84.0	49.2
Online healthcare platforms	<u>286,229</u>	<u>12.3</u>	<u>259,640</u>	<u>16.0</u>	10.2
Total	<u>2,323,351</u>	<u>100.0</u>	<u>1,624,561</u>	<u>100.0</u>	43.0

Note:

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

Our revenue derived from offline medical institutions increased by 49.2% from RMB1,364.9 million for the year ended December 31, 2022 to RMB2,037.1 million for the year ended December 31, 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 10.2% from RMB259.6 million for the year ended December 31, 2022 to RMB286.2 million for the year ended December 31, 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 44.3% from RMB1,125.0 million for the year ended December 31, 2022 to RMB1,623.4 million for the year ended December 31, 2023.

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

	Year ended December 31,				Year on year fluctuation (%)
	2023		2022		
	Cost of sales (RMB'000)	% of total (%)	Cost of sales (RMB'000)	% of total (%)	
Cost of physicians and cost of materials	1,310,317	80.7	884,109	78.6	48.2
Regular operating expenses	313,035	19.3	240,916	21.4	29.9
Total	<u>1,623,352</u>	<u>100.0</u>	<u>1,125,025</u>	<u>100.0</u>	44.3

Our cost of physicians and cost of materials increased by 48.2% from RMB884.1 million for the year ended December 31, 2022 to RMB1,310.3 million for the year ended December 31, 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 29.9% from RMB240.9 million for the year ended December 31, 2022 to RMB313.0 million for the year ended December 31, 2023, primarily due to our recruitment of non-physician staff and procurement of utilities mainly for offline medical institutions that commenced operations in 2023.

Gross Profit and Gross Profit Margin

Our gross profit increased by 40.1% from RMB499.5 million for the year ended December 31, 2022 to RMB700.0 million for the year ended December 31, 2023.

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

	Year ended December 31,			
	2023		2022	
	Gross profit	Gross profit	Gross profit	Gross profit
	(RMB'000)	margin	(RMB'000)	margin
		(%)		(%)
Gross profit				
Provision of healthcare solutions	687,252	30.0	488,073	30.6
Sale of healthcare products	12,747	35.2	11,463	39.7
Total	699,999	30.1	499,536	30.7

Our gross profit of provision of healthcare solutions increased by 40.8% from RMB488.1 million for the year ended December 31, 2022 to RMB687.3 million for the year ended December 31, 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 around 30.0% for the years ended December 31, 2022 and 2023.

Our gross profit of sale of healthcare products increased by 11.2% from RMB11.5 million for the year ended December 31, 2022 to RMB12.7 million for the year ended December 31, 2023, while gross profit margin of sale of healthcare products decreased from 39.7% for the year ended December 31, 2022 to 35.2% for the year ended December 31, 2023, primarily due to our adjustment on the sale of healthcare products in 2023.

Other Income and Gains

Our other income and gains increased by 63.3% from RMB33.6 million for the year ended December 31, 2022 to RMB54.8 million for the year ended December 31, 2023, primarily because (i) we recorded net foreign exchange gains of RMB13.3 million mainly as a result of the appreciation of USD against RMB, as we have deposits denominated in USD; (ii) we recorded an increase of RMB4.4 million in interest income in line with our increased bank deposit; and (iii) we recorded an increase of RMB3.2 million in government subsidies mainly because we received government subsidies by virtue of our contribution to local economy.

Selling and Distribution Expenses

	Year ended December 31,				Year on year
	2023		2022		fluctuation
	Selling and distribution expenses (RMB'000)	% of total (%)	Selling and distribution expenses (RMB'000)	% of total (%)	2023/2022 (%)
Regional operating expenses	277,292	98.6	203,411	98.1	36.3
Third-party client acquisition costs	4,071	1.4	3,913	1.9	4.0
Total	281,363	100.0	207,324	100.0	35.7

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, 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 35.7% from RMB207.3 million for the year ended December 31, 2022 to RMB281.4 million for the year ended December 31, 2023, primarily due to an increase of RMB73.9 million in regional operating expenses mainly as a result of the expansion of our regional operating department to accommodate our business development in new geographical regions.

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 strengthened 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 year ended December 31, 2022, approximately 95% of our new customers were acquired by our proprietary medical institutions, pharmacies and online healthcare platforms, 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 RMB3.9 million for the year ended December 31, 2022 to RMB4.1 million for the year ended December 31, 2023, which was in relation to 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 54.4% from RMB100.2 million for the year ended December 31, 2022 to RMB154.7 million for the year ended December 31, 2023, primarily due to (i) the increase in employee benefit expenses in relation to the share option and share award expenses; and (ii) additional office expenses with the development of our operations in 2023.

Other Expenses

During the Reporting Period, our other expenses mainly include donation. Our other expenses decreased by 7.3% from RMB9.8 million for the year ended December 31, 2022 to RMB9.1 million for the year ended December 31, 2023, primarily because we recorded net foreign exchange gains during the year ended December 31, 2023 in relation to the appreciation of USD against RMB, as we have deposits denominated in USD, while we recorded net foreign exchange loss during the year ended December 31, 2022. Such decrease in other expenses is partially offset by our increased donation in 2023.

Finance Costs

Our finance cost increased by 45.2% from RMB17.6 million for the year ended December 31, 2022 to RMB25.6 million for the year ended December 31, 2023, primarily due to the increase in interest rate for early repayment of our other borrowings.

Income Tax Expense

Our income tax expense increased from RMB17.6 million for the year ended December 31, 2022 to RMB31.2 million for the year ended December 31, 2023, primarily due to the increase in taxable profit in line with the business expansion of both our online healthcare platforms and offline medical institutions.

Profit for the Year

As a result of the foregoing, our profit for the year increased from RMB181.2 million for the year ended December 31, 2022 to RMB252.9 million for the year ended December 31, 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 year-on-year comparisons of operating performance by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance; and (ii) provides useful information to investors in understanding and evaluating our results of consolidated statements of 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 year adjusted for equity-settled share-based payments in relation to the (i) share options granted under the Pre-IPO Share Option Plan, (ii) share options granted under the Post-IPO Share Option Scheme, (iii) share awards granted under the restricted share award scheme (existing shares) adopted by the Board on September 9, 2022, and (iv) share awards granted under the RSA Scheme (New Shares). 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 expenses of our Group. Adjusted net profit increased by 53.6% from RMB198.4 million for the year ended December 31, 2022 to RMB304.7 million for the year ended December 31, 2023.

	Year ended December 31,	
	2023	2022
		(Restated ⁽²⁾)
Profit for the year	252,940	181,153
Adjustment for ⁽¹⁾ :		
Equity-settled share-based payments	<u>51,774</u>	<u>17,255</u>
Adjusted net profit	<u>304,714</u>	<u>198,408</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 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. As of December 31, 2023, the issued share capital of the Company was US\$24,658.9092 and the number of Share in issue was 246,589,092 of US\$0.0001 each.

As of December 31, 2023, we had cash and cash equivalents of RMB1,301.3 million (which was RMB994.3 million as of December 31, 2022), which were denominated in RMB, USD or HKD. As of December 31, 2023, we had interest-bearing bank and other borrowings of an aggregate amount of RMB16.4 million (which was RMB71.2 million as of December 31, 2022), which were denominated in RMB with interest rates from 3.25% to 4.15% 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 December 31, 2023, we did not have any contingent liabilities.

Gearing Ratio

As of December 31, 2023, our gearing ratio, being our total interest-bearing bank and other borrowings divided by our total equity as of the end of the year and multiplied by 100%, was 0.7%.

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 2023.

Capital Expenditures

Our capital expenditure during the Reporting Period was primarily relating to (i) purchases of property, plant and equipment; (ii) decoration and 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 RMB71.1 million (which was RMB39.1 million for the year ended December 31, 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.

EMPLOYMENT AND REMUNERATION POLICY

As of December 31, 2023, we had 2,659 employees (which was 1,907 employees as of December 31, 2022). The following table sets forth a breakdown of the employees by function as of December 31, 2023:

Functions	Number of employees	% of total employees
Physicians and other medical professionals	1,426	54%
Management, operations and others	592	22%
Sales and marketing	485	18%
Supply chain	103	4%
Information technology and research and development	53	2%
Total	<u>2,659</u>	<u>100%</u>

For the year ended December 31, 2023, our total staff cost amounted to approximately RMB385.5 million (which was approximately RMB273.2 million for the year ended December 31, 2022), including pension and housing fund.

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

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

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

FINAL DIVIDENDS

The Board has resolved not to recommend payment of a final dividend for the fiscal year ended December 31, 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 intended purposes set out in the Prospectus.

The following table sets out the intended use of the Net Proceeds, actual usage up to December 31, 2023, as well as the expected timeline for utilization:

	% of the Net Proceeds (%)	Amount available for utilization	Net Proceeds and utilization			Expected timeline for utilization ⁽¹⁾
			Utilized amount during the year ended December 31, 2023	Utilized amount as of December 31, 2023	Remaining amount as of December 31, 2023	
To expand our offline and online operations and enhance the integration between them	69.9	541.3	242.9	406.0	135.3	By the end of 2025
To enhance our research and development capabilities, including the research and development of in-hospital preparation and TCM solution packages	9.6	74.8	44.3	52.7	22.1	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	9.6	74.8	57.0	60.4	14.4	By the end of 2025
For marketing and branding activities	4.9	38.3	17.5	38.3	—	—
For working capital and general corporate purposes	6.0	46.7	—	46.7	—	—
Total	100.0	775.9	361.7	604.1	171.8	

Note:

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

As of the date of this announcement, we have utilized Net Proceeds of approximately HK\$ 632.1 million. The remaining Net Proceeds were deposited in banks as of the date of this announcement. We 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 December 31, 2023, as well as the expected timeline for utilization:

	Top-up Placing Net Proceeds and utilization					Expected timeline for utilization ⁽¹⁾
	% of the Net Proceeds (%)	Amount available for utilization	Utilized amount during the year ended December 31, 2023	Utilized amount as of December 31, 2023	Remaining amount as of December 31, 2023	
For the expansion of offline medical institutions	60.0	323.77	—	—	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	20.0	107.92	—	—	107.92	By the end of 2027
For diversifying the Company’s product portfolio	10.0	53.96	—	—	53.96	By the end of 2027
For standardizing healthcare solutions and improving the Company’s information technology systems	10.0	53.96	2.05	2.05	51.91	By the end of 2027
Total	100.0	539.61	2.05	2.05	537.56	

Note:

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

As of the date of this announcement, we have utilized Top-up Placing Net Proceeds of approximately HK\$2.05 million. The remaining Top-up Placing Net Proceeds were deposited in banks as of the date of this announcement. The Group will gradually utilize the Top-up Placing Net Proceeds in accordance with the intended purposes as set out in the Announcements.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code as set out in Appendix C1 to the Listing Rules as its own code of corporate governance.

The Board considered that the Company has complied with all applicable code provisions as set out in the CG Code for the year ended December 31, 2023, save and except for code provision C.2.1 of the CG Code.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix C3 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 required standards as set out in the Model Code for the year ended December 31, 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 for the year ended December 31, 2023.

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

The Directors have been granted a general mandate by the Shareholders at the annual general meeting of the Company held on June 16, 2023 to repurchase up to 24,079,645 Shares (the “**Repurchase Mandate**”) on the Stock Exchange, representing 10% of the total number of issued Shares of the Company as at the date of the annual general meeting. During the year ended December 31, 2023, the Company repurchased a total of 969,800 Shares on the Stock Exchange under the Repurchase Mandate at a total consideration (excluding expenses) of approximately HK\$42,915,450, which was funded by internal resources of the Company. 679,800 Shares repurchased by the Company in August 2023 and September 2023 were cancelled on October 18, 2023 while 290,000 Shares repurchased by the Company in October 2023 remained uncanceled as of the date of this announcement. Details of Shares repurchased by the Company during the Reporting Period are set out below:

Month of repurchase	Number of Shares repurchased	Price per Share repurchased		Aggregate consideration paid (excluding expenses) (HK\$)
		Highest price (HK\$)	Lowest price (HK\$)	
August 2023	212,600	42.50	41.45	8,927,470
September 2023	467,200	45.55	43.40	20,751,400
October 2023	290,000	47.05	44.55	13,236,580
Total	969,800	—	—	42,915,450

The Board believes that the Company’s existing financial resources are sufficient to carry out its repurchase of Shares, while keeping the continuing operation of the Company in a good financial condition. Such repurchase of Shares would reflect the Board’s confidence in the Company’s prospects, and benefit the Shareholders as a whole by enhancing the earnings per share of the Company, therefore in line with the best interests of the Company and its Shareholders.

Save as disclosed above, none of the Company or any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2023.

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.

SUBSEQUENT EVENT

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the best knowledge of the Directors, at least 25% of the Company's total issued Shares, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, was held by the public at all times during the Reporting Period and as of the date of this announcement.

AUDIT COMMITTEE

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

The Audit Committee has, together with the management of the Company, reviewed the accounting practice and policies adopted by the Group and the consolidated financial statements for the year ended December 31, 2023, and has recommended for the Board's approval thereof.

REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY THE INDEPENDENT AUDITOR

The figures in respect of the Group's consolidated statement of financial position as at December 31, 2023, consolidated statement of profit or loss and other comprehensive income and related notes thereto for the year ended December 31, 2023 as set out in this preliminary announcement have been agreed by the Group's independent auditor to the amounts set out in the Group's consolidated financial statements for the year. The work performed by the Group's independent auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by the Group's independent auditors on this preliminary announcement of results.

ANNUAL GENERAL MEETING

The AGM of the Company will be held on June 18, 2024. A notice convening the AGM will be published on the Company's website and the Stock Exchange's website and despatched to the Shareholders in accordance with the requirements of the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from June 13, 2024 to June 18, 2024, both days inclusive. During such period, no transfer of Shares of the Company will be registered. The record date for determining the eligibility to attend the forthcoming AGM to be held on June 18, 2024 will be June 18, 2024. In order to be eligible for attending the forthcoming AGM, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on June 12, 2024.

PUBLICATION OF THE ANNUAL RESULT AND THE ANNUAL REPORT ON THE WEBSITE OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.gstzy.cn), and the 2023 annual report containing all the information required by the Listing Rules will be despatched to the Shareholders in accordance with the requirements of the Listing Rules and published on the respective websites of the Stock Exchange and the Company in due course.

DEFINITIONS AND GLOSSARIES

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

“AGM”	annual general meeting of the Company
“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 C1 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”	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
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and, unless the context otherwise requires, refers to Mr. Tu, Action Thrive Group Limited, Celestial City Investment Limited, Dream True Limited and Wumianshan Ltd.

“COVID-19”	Novel coronavirus pneumonia
“Director(s)”	director(s) of the Company
“ERP”	enterprise resource planning system, a business process management system consisting of integrated software applications that help manage a business and automate many back office functions related to technology, service and human resources
“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”	the Company, its subsidiaries and controlled affiliated entities controlled by the Company 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 C3 to the Listing Rules
“Mr. Tu”	Mr. Tu Zhiliang (涂志亮), the executive Director, the chairman of the Board, the chief executive officer of the Company, and one of our Controlling Shareholders
“OMO”	online-merge-offline
“Post-IPO Share Option Scheme”	the share option scheme of the Company as approved on December 7, 2022, the principal terms of which are set out in the Circular
“Pre-IPO Share Option Plan”	the pre-IPO share option plan approved and adopted by the Company on March 31, 2021
“Prospectus”	the prospectus of the Company published on November 30, 2021
“Reporting Period”	the twelve-month period from January 1, 2023 to December 31, 2023
“RMB” or “Renminbi”	the lawful currency of the PRC
“RSA Scheme (New Shares)”	the restricted share award scheme (new shares) of the Company as approved on December 7, 2022, the principal terms of which are set out in the Circular
“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 section 15 of the Companies Ordinance
“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, March 27, 2024

As at the date of this announcement, the Board of the Company 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.