



2021
年度報告 Annual Report

固生堂

GUSHENGTANG HOLDINGS LIMITED
固生堂控股有限公司

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

股份代號 Stock Code: 2273

CONTENTS

Corporate Information

DIRECTORS

Executive Director

Mr. Tu Zhiliang (涂志亮) *(Chairman)*

Non-executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

JOINT COMPANY SECRETARIES

Ms. Xie Xiaoping (謝小平)
Ms. Lau Jeanie (劉准羽) (ACG, HKACG)

AUTHORIZED REPRESENTATIVES

Mr. Tu Zhiliang (涂志亮)
Ms. Lau Jeanie (劉准羽) (ACG, HKACG)

REGISTERED OFFICE

Harneys Fiduciary (Cayman) Limited
4th Floor, Harbour Place
103 South Church Street
P.O. Box 10240
Grand Cayman, KY1-1002
Cayman Islands

HEADQUARTERS IN THE PRC

Room 102, Building 1
No. 138, Shiyu Road
Nansha District
Guangzhou City
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Dah Sing Financial Centre
No. 248 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Harneys Fiduciary (Cayman) Limited
4th Floor, Harbour Place
103 South Church Street
P.O. Box 10204
Grand Cayman, KY1-1002
Cayman Islands

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited
Guangzhou Dezheng Middle Road Branch
No. 316 to 318
Dezheng Middle Road
Yuexiu District
Guangzhou City
PRC

Shanghai Pudong Development Bank Co., Ltd.
Guangzhou Panyu Branch
No. 1, Kouan Street
Qinghe East Road
Panyu District
Guangzhou City
PRC

AUDITOR

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

HONG KONG LEGAL ADVISOR

Tian Yuan Law Firm LLP
Suites 3304-3309, 33/F
Jardine House
One Connaught Place
Central, Hong Kong

COMPLIANCE ADVISER

Guotai Junan Capital Limited
(A licensed corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO)
27/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

STOCK CODE

2273

COMPANY'S WEBSITE

www.gstzy.cn

Key Financial and Operational Data

FINANCIAL HIGHLIGHTS

	Year ended December 31, (RMB'000, except for percentage)			
	2021	2020	Changes	
Revenue	**1,372,099**	925,366	446,733	48.3%
Gross profit	**620,304**	437,490	182,814	41.8%
Loss before tax	**(518,022)**	(241,763)	(276,259)	114.3%
Loss for the year	**(506,886)**	(255,328)	(251,558)	98.5%
Adjusted net profit(1)	**156,719**	84,709	72,010	85.0%
Basic loss per share (RMB)	**(4.38)**	(3.28)	(1.10)	-33.5%
Profitability ratio				
Gross margin	**45.2%**	47.3%	N/A	-2.1%
Net loss ratio	**(36.9%)**	(27.6%)	N/A	-9.3%
Adjusted net profit ratio(2)	**11.4%**	9.2%	N/A	2.2%

Notes:

(1) Adjustments to loss for the year of the Group include: (i) fair value change of financial liabilities at fair value through profit or loss in connection with the convertible redeemable preferred shares and the convertible bonds of the Company of RMB419.5 million (2020: RMB316.2 million); (ii) equity-settled share-based payment of RMB171.4 million in relation to the share options granted under the Pre-IPO Share Option Plan as defined in the prospectus of the Company dated November 30, 2021 (2020: RMB15.4 million); and (iii) non-recurring expenses which mainly represented the legal and professional fees and miscellaneous expenses of RMB72.7 million related to the Group's non-operating activities such as listing and group reorganization (2020: RMB8.5 million).

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

Dear Shareholders,

On behalf of the Board of GUSHENGTANG HOLDINGS LIMITED, I am honored to present the annual report of the Group for the year ended December 31, 2021.

Since its establishment in 2010, Gushengtang TCM has been developing and accumulating experience for 11 years, thus establishing an online and offline primary medical service network covering more than 300 cities across the country. As of December 31, 2021, the Group had served nearly 10 million people in total, with approximately 2.7 million people in 2021, making the Group the largest TCM chain service institution in China. Gushengtang achieved satisfying results in 2021, with its revenue reaching RMB1.37 billion, representing a year-on-year increase of 48.3%, and its adjusted net profit amounting to RMB157 million, representing a year-on-year increase of 85%.

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

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

Substantially all the famous and experienced TCM physicians invited by Gushengtang were physicians stationed in class III grade A hospitals, who are difficult to make an appointment with, busy with outpatient visits and highly acknowledged by patients. Also, their medical skills and ethics have been highly acclaimed by patients. The majority of income of them was derived from registration fees, forming a conscience mechanism featuring minimal drug prescription and high return rate of users. Concurrently, Gushengtang established a medication guarantee mechanism for the Group by selecting high-quality TCM raw materials and inviting domestic authoritative TCM raw materials verification experts, to verify our TCM raw materials regularly. According to the characteristics of each kind of TCM raw materials, the place of origin and the using practice in various regions, only TCM raw materials with significant efficacy and meeting national regulations were selected for the sake of strictly controlling the quality of the TCM raw materials of Gushengtang.

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

The average spending per outpatient visit of Gushengtang for the preceding 3 years was approximately RMB515, RMB518 and RMB513 respectively, which did not increase or change significantly. Our revenue growth was mainly attributable to the growth in service volume, the increase in number of members and the increase in the proportion of members' spending. As of December 31, 2021, the patient return rate of Gushengtang for the preceding 3 years exceeded 50%, the number of members was 25,310, 55,373 and 139,039 respectively, the annual return rate of patients was approximately 88.2%, 89.1% and 87.3% respectively, and approximately 8%, 24% and 31% of spending was made by our members respectively. We launched our membership service system in 2019. The average revenue per member user was approximately 2 times of that of non-member user. Armed with refined services and operation, the Group provided users with all round and full life-cycle TCM healthcare services featuring comprehensive care and support in respect of physical and mental health and built a harmonious physician-patient relationship with "Perseverance, Persistence, Consistency".

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

In recent years, China issued a number of policies, laws and regulations to support the healthy and orderly development of TCM institutions.

In October 2019, the Central Committee of the Communist Party of China and the State Council issued the "Opinions on Promoting the Inheritance, Innovation and Development of Traditional Chinese Medicine", setting a clear direction for the inheritance, innovation and development of the TCM industry in the new era. According to the "Several Policies and Measures on Accelerating the Featured Development of Traditional Chinese Medicine" issued by the General Office of the State Council in February 2021 and the "Development Plan for Traditional Chinese Medicine under the 14th Five-Year Plan" issued by the General Office of the State Council in March 2022, a number of detailed policies and measures were proposed to promote the development of the TCM industry, to clearly state the strengthening of the establishment of the TCM service system and of the "flagship" primary medical healthcare institutions. It was also proposed to establish the hall of famous physicians, to encourage and support experienced social sectors to establish the hall of reputable TCM physician for chain operation. With reference to the requirements of branding, quality, regulation and standardization, a number of halls of reputable TCM physicians at different levels would be planned and established to create a scalable, replicable and sustainable model of exemplary operation of the hall of reputable TCM physician. The "Notice on Printing and Distributing the Administrative Measures for Medical Treatment Partnership Systems (Trial)" issued by the National Health Commission and the National Administration of Traditional Chinese Medicine, which came into effect on August 1, 2020, explicitly encouraged medical healthcare institutions organized by the social sector to participate in the Medical Treatment Partnership System (the "**MTPS**") on a voluntary basis. The "14th Five-Year Plan for National Economic and Social Development of the People's Republic of China" and the "Outline of Long-Range Objectives Through the Year 2035" issued on March 11, 2021 required "implementing regional registration of physicians and promoting multi-institution practice of physicians."

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

The national policies and laws and regulations mentioned above explicitly encouraged medical healthcare institutions organized by the social sector to make high-quality medical resources available to the grassroots level through the market-oriented mechanism in a well-organized way by working with the MTPS, allowing multi-site practice of physicians and creating a model operation mode featuring the hall of famous physicians. As a leading primary TCM chain service institution, we were the actual practitioner of the above national policies. 42 of our offline medical institutions covered 11 cities, thereby creating branded, chained, collectivized and standardized halls of reputable TCM physicians, providing users with first-class medical environment and first-class TCM services. Over 20,000 physicians provided TCM services through our online and offline service network. Under the major background of hierarchical diagnosis and treatment, we truly realized the market-oriented approach through technical means to make high-quality medical resources available to the grassroots level so as to cover a wider population in a well-organized way. Meanwhile, we attached great importance to the academic inheritance of TCM, and were committed to training and providing more outstanding TCM talents to the society through, among others, the establishment of inheritance workshops for famous TCM physicians.

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

The "Notice on Further Improving Key Works for the Construction of Hierarchical Diagnosis and Treatment System" issued by the National Health Commission and the State Administration of Traditional Chinese Medicine in August 2018 stated that medical institutions established by the social sector should be included in the MTPS and eligible medical institutions organized by the social sector could also lead the establishment of the MTPS.

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

Response to COVID-19

In 2021, the COVID-19 pandemic situation was still challenging and complicated, and our offline medical institutions in Guangzhou, Shenzhen, Beijing, Nanjing, Ningbo, Fuzhou and other regions covered by our medical network were affected by the pandemic. After the outbreak of the COVID-19 pandemic in 2020, we established a relatively comprehensive and rapid response mechanism with different response measures for the impact of the pandemic at different extents, so as to continue to provide medical services to users notwithstanding the strict epidemic prevention measures. Firstly, benefiting from our OMO business model, we were able to recommend patients to switch to online diagnosis for medical treatment when our offline medical institutions were temporarily closed due to the pandemic and to establish online medical consultation habits for experts and patients, so as to adapt to the possible normalization of lockdown and control, thus ensuring uninterrupted TMC diagnosis and treatment services, meeting users' medical needs and compensating the decline in revenue of outlets resulted from the pandemic through the increase in revenue from online diagnosis and treatment. Secondly, the Group was able to actively explore and seek opportunities for offline mergers and acquisitions of offline medical institutions during the pandemic. In addition, during the period of pandemic prevention and control, the Group could strengthen its scientific research capabilities and build a one-stop comprehensive medical service platform for R&D. Given the low turnover rate and the increase in idle time of TCM physicians, it could be a good opportunity to cooperate with TCM physicians to encourage physicians' consultation, follow-up consultation, video consultation and use of online platforms.

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

Offline medical institutions have been our main operating carriers and the important service scenarios for our experts and patients. With the rapid expansion of our overall business scale, we invested a considerable amount of resources in digital operation and compliance control in 2021:

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

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

(3) We built an intelligent review party compliance platform in which the logic of medical insurance compliance was embedded, and carried out compliance management through the application of information.

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

In 2021, we set up management committees for each segment of the Group to further enhance our refined management. We selected outstanding and key personnel from business partners as chief members of the management committees. The management committees went into details of the Company's businesses, and implemented refined management in user services, services of experts, control on medical insurance compliance and purchase-sales-inventory management of supply chains. At the same time, the management committees also assisted us in building the user service system featuring "Customer Comes First, Service Enjoys Priority, Quality is King" by supervising the processes of various business segments of the Group, thereby improving customer service experience. During the process, the Company has been able to refine its business management on one hand and to train a large number of high-quality talents on the other hand, so as to retain talents for the rapid development of the Company in the future.

We implemented the core management concept of "Co-creation, Co-governance, Sharing" and continued to improve the management efficiency. In 2021, we further combined Foshan and Zhongshan areas into the Greater Guangzhou-Foshan-Zhongshan Region and combined Suzhou, Wuxi and Nanjing into the Greater Jiangsu Region. As a result, the Group managed to further reduce the number of units for management accounting, succeeded in "Serving Meals Separately" and thoroughly implemented the management policy of "Strong Region", thereby fully empowering the regional authorities and improving the management efficiency.

Leverage its own advantages to take social responsibilities actively

In 2021, given the COVID-19 pandemic across the country, Gushengtang took the lead to cooperate with governmental departments at all levels to join the fight against the pandemic. With the support of medical resources and supply chains of the platform of Gushengtang, we arranged more than 1,000 medical personnel for works related to pandemic prevention and assisted in nucleic acid screening tests for more than 300,000 people across the country in 2021.

Gushengtang and the China Red Cross Foundation established a people-charity fund to apply in fields related to the popularization of TCM culture, the free TCM consultation and the inheritance of TCM culture.

Gushengtang donated RMB1 million to Henan University of Chinese Medicine to assist in the reconstruction and resumption of production after the flooding. The Company also donated RMB500,000 to the Education Fund of Yuexiu District in Guangzhou, in order to promote the development of education.

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

II. FUTURE BUSINESS OUTLOOK

In view of the estimation that the TCM market will maintain a relatively high growth rate in the future and the insufficient supply of high-quality medical resources at the moment, the general public's demand for TCM services is increasing. We plan to ensure high-quality and rapid growth in 2022 through internal growth and external expansion in the following aspects, so as to meet the needs of patients and further promote high-quality medical resources to the grassroots level:

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

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

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

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

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

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

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

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

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

III. CONCLUSION

Finally, on behalf of the Board, I would like to express my sincere gratitude and blessing to all patients and investors for their continuous trust and support, and also present my heartfelt appreciation to all staff of Gushengtang for their relentless effort and invaluable contribution. "Nothing, not even high mountains and deep oceans, can stop people with admirable goals." We hope to cooperate with governmental departments, cooperative units, experts, professors, users, employees, partners and Shareholders to facilitate the development of the TCM industry, so that TCM, the treasure of Chinese culture, can inherit and innovate, make continuous contribution in the supply side reform of the TCM industry and establish cultural confidence, for the sake of spreading the charm of TCM throughout the country and all over the world.

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

Tu Zhiliang
Chairman
March 30, 2022

Management Discussion and Analysis

BUSINESS REVIEW

The Group is a TCM healthcare service provider in China. Through our offline medical institutions and online healthcare platforms, the Group provides customers with a comprehensive range of TCM healthcare services and products to address their diverse medical and healthcare management needs. Focusing on primary care, the Group has established a TCM platform with the integration of online healthcare platforms and offline medical institutions, combining TCM and western medicine, to provide comprehensive healthcare solutions throughout the whole process of disease diagnosis and treatment and healthcare management.

The Group adheres to the philosophy of maintaining the finest quality with the utmost precision and continues to improve the medical service network, healthcare solutions, healthcare products and customers' experience. Leveraging on the multi-disciplinary foundation technology platform developed over the years as well as the proven commercialization and marketing strength, the Group has achieved substantial breakthroughs in a number of new businesses, and is committed to providing high-quality, inclusive and integrated medical solutions that can prolong and reshape lives for citizens in China.

Integration of online healthcare platforms and offline medical institutions

With the rapid development of internet technology, more and more TCM healthcare service providers in China are adopting the business model with the integration of online healthcare platforms and offline medical institutions. The core purpose of such business model is to solve the pain points of conventional TCM diagnosis and treatment, such as limited customer outreach, unbalanced physician resources among different regions, and inconvenience of follow-up visits and long-term healthcare management of customers. The Group started to expand offline healthcare service to online healthcare platforms and further integrated its offline medical institutions with online healthcare platforms in 2018. The Group believes it is one of the first TCM healthcare providers to utilize the online healthcare platforms and effectively connect the offline medical service network with the online healthcare 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 online healthcare services enables the Group to utilize medical resources and expand its customer coverage more effectively. On the other hand, the Group is able to strategically choose cities for offline expansion based on the activeness of online physicians and customers.

Combining TCM and western medicine

The Group originated from the conventional TCM diagnosis and treatment methods of primary care, and developed diagnosis and treatment methods combining TCM and western medicine. It provides TCM healthcare solutions through online healthcare platforms and offline TCM medical institutions, combining conventional TCM diagnosis and treatment methods with western medicine, such as clinical laboratory examination and treatment. The Group aims to effectively and efficiently provide patients with comprehensive healthcare solutions, especially chronic disease management. The Group focuses on the customers' daily primary care, aiming to achieve long-term follow-up and healthcare management for customers.

During the year ended December 31, 2021, the Group had generated revenue primarily from (i) the provision of healthcare solutions and (ii) sale of healthcare products. Revenue generated from the provision of healthcare solutions was primarily affected by the scale of the Group's offline and online medical service network, the number of our customers and our customers' spending in the relevant years or periods. Revenue derived from the sale of healthcare products fluctuated primarily attributable to the volume and type of valuable medicinal and nourishment sold during the year ended December 31, 2021, the unit price of which may vary significantly. In general, when the sales volume of valuable medicinal and nourishment with high unit price increased, the Group would generate more revenue from sale of healthcare products.

During the Reporting Period, *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》was promulgated on February 2021 to serve as a government incentive policy to drive the development of TCM healthcare industry in China. Further, during the COVID-19 pandemic, TCM healthcare had high degree of engagement with positive effect and has been widely recognized by its unique role in providing preventative care, alleviating COVID-19 symptoms and reducing fatality rate, which significantly enhanced people's awareness and acceptance of TCM healthcare worldwide.

The Group has actively promoted the development of its businesses in China. As of December 31, 2021, the Group owned and operated 42 medical institutions in Beijing, Shanghai, Guangzhou, Shenzhen, Foshan, Zhongshan, Fuzhou, Nanjing, Suzhou, Ningbo and Wuxi. All of our medical institutions are private for-profit medical institutions operated under our brand name "Gushengtang (固生堂)".

During the year ended December 31, 2021, the Group has expanded medical service network through strategic acquisitions of offline medical institutions and online healthcare platforms. Our Group acquired Wanjia Platform in April 2021 for online healthcare platforms specializing in traditional Chinese medical healthcare solutions to further strengthen our online medical service network.

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

	Year ended December 31, 2021	2020
New customers[1]	**526,820**	361,754
Accumulated customers at the end of each year[2]	**2,180,825**	1,654,005
Customer visits (thousands)	**2,673**	1,787
Accumulated customer visits at the end of each year (thousands)	**9,929**	7,256
Customer return rate[3] (%)	**62.8**	57.5
Average spending per customer visit (RMB)	**513**	518

Notes:

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

(2) Refer to, as at 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) equal 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. The customer return rate in 2020 included those of Bailu for the entire year of 2020 for statistical purpose.

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

	Year ended December 31, 2021	2020
Number of members who had made any spending in our medical service network	**138,328**	79,745
Member visits (thousands)	**752**	369
Member return rate[1] (%)	**87.3**	89.1
Average spending per member (RMB)	**3,118**	2,782
Average spending per non-member customer (RMB)	**1,537**	1,485

Note:

(1) Refer to, in respect of any financial year, a fraction (expressed as a percentage) equal 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.

Below are major accomplishments of the Group during the year ended December 31, 2021:

(a) among all TCM healthcare providers in China with both offline and online medical service network:

- the largest number of TCM physicians as of December 31, 2021;
- the largest number of offline medical institutions as of December 31, 2021; and
- the largest number of cities covered by offline medical institution network as of December 31, 2021.

(b) among all private TCM healthcare providers in China with both offline and online medical service network:

- the highest revenue generated from providing healthcare solutions in 2020.

Business Analysis by Business Segment

The following table sets forth the revenue and operating profit for our business lines of the Group for the years indicated:

Revenue by segment

	Year ended		Fluctuation
	2021	2020	2021/2020
	RMB'000	RMB'000	%
Provision of healthcare solutions	**1,342,996**	891,797	50.6%
Sale of healthcare products	**29,103**	33,569	(13.3%)
Total	**1,372,099**	925,366	48.3%

The revenue of provision of healthcare solutions increase by 50.6% in 2021 as compared with the same period of 2020, which was mainly due to the fact that (a) the Group kept enlarging its business scales through business acquisitions and standardising the business operation of its offline clinics via synergizing the Group's supply chain system and resource pools of reputable TCM physicians and (b) the revenue of online TCM healthcare for year 2021 significantly increased as compared with that in year 2020. Sale of healthcare products decrease by 13.3% in 2021 as compared with the same period of 2020, since the Group ceased product lines for certain non-performing products.

Gross Profit by segment

	2021		2020	
	RMB'000	%	RMB'000	%
Provision of healthcare solutions	**607,361**	**45.2**	423,906	47.5
Sale of healthcare products	**12,943**	**44.5**	13,584	40.5
Total	**620,304**	**45.2**	437,490	47.3

The Group's gross profit margin on the provision of healthcare solutions decreased by 2.3% in 2021 as compared with that in 2020, which was mainly caused by increase in human resources costs of our online healthcare platforms to attract TCM physicians outweighs the increase in revenue contribution from Internet hospital. The Gross profit margin of the sale of healthcare products in 2021 increased by 4.0% as compared with that in 2020, which was mainly due to the high-margin products such as ready-to-eat bird's nest (即食燕窩) and fish maws (花膠) sold on the online platforms.

IMPACT OF COVID-19

The spread of the disease has materially and adversely affected global economy. In light of the epidemic brought by COVID-19, local healthcare administrative authorities have imposed controls on healthcare services except for those in need for urgent medical attention. Patients suffering from other diseases generally avoided attending to medical institutions to minimize the risk of infection. During the Reporting Period, 4 offline medical institutions were closed by us due to the pandemic and they suspended operation for 23 days on average. In light of the continuous spread of COVID-19 and government control on offline business, customers' demand for offline healthcare solutions and products may be adversely affected. However, we will continue to closely monitor the indicators for any further waves of COVID-19 outbreaks and proactively take anti-transmission measures in our medical institutions in a timely manner.

Nevertheless, a grow in health awareness has escalated healthcare consumption per capita. Healthcare consumption has become an important portion of an individual's consumption, given the rising awareness and accessibility of health screening and early disease detection. The outbreak of COVID-19 has further enhanced the awareness of preventative care. Healthcare consumption per capita in China is expected to increase from RMB1,843 in 2020 to RMB4,359 in 2030, accounting for 8.7% and 9.8% of the total consumption per capita in 2020 and 2030, respectively, according to National Bureau of Statistics of the PRC and the forecast of Frost & Sullivan. On the other hand, the outbreak of COVID-19 has promoted certain government policies to encourage online healthcare services and the growing health awareness; and strengthen the popularization of TCM. Despite the severe challenges brought on by the global spread of COVID-19, the Group's total consolidated revenue increased by 48.3% from approximately RMB925.4 million for the year ended December 31, 2020 to approximately RMB1,372.1 million for the year ended December 31, 2021. For details on our liquidity and working capital position, see section headed "Liquidity, Financial Resources and Capital Structure" in this report.

To better cope with the coronavirus pandemic, the Group has allocated more resources to improve its business performance and boost promotion. The Board, therefore, is of the view that the Group would benefit from such factors to expand the business of the Group.

BUSINESS PROSPECT

In the context of China's continuous promotion of the development of TCM and the continuous introduction of various incentive policies, we will continue to (a) develop the deepening resource advantages of the OMO platform model of the Group and the brand value advantage of "GUSHENGTANG", (b) attract excellent medical resources to join the platform, and (c) solve the pain points of "difficult and expensive medical services" for patients. The Group is committed to expanding our online and offline primary medical service network to provide high-quality TCM services to more patients.

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

We will continue to adhere to the "mentorship" model of TCM talents training, aiming to cultivate and build a high-quality team of young physicians. Meanwhile, the training of young physicians by the "GUSHENGTANG" Reputable TCM Great Master Inheritance Studio ("固生堂"名中醫傳承工作室) and the OMO platform has achieved its initial success. Through the OMO platform, the geographical restrictions have been lifted, and the clinical experience and academic achievements of outstanding experts in various regions can be quickly shared among the young talents on our platform.

1. The clinical experience and academic achievements of local outstanding experts can be quickly shared with the young physicians on the platform, which can accelerate the team building of full-time physicians. The "GUSHENGTANG" Reputable TCM Great Master Inheritance Studio provides quality assurance for all-rounded TCM services with sufficient talent physician resources (i.e., prevention, treatment, health management, personalized medical services), so that outstanding experts can focus more on patients' efficacy and customer experience in the process of diagnosis and treatment, thereby achieving a win-win service model for physicians and patients.

2. Empowering healthcare services through digitalization and "Internet +". In line with the PRC government's policy to encourage "Internet +" TCM services, we plan to launch smart hardware devices such as four-examination instruments (四診儀) to improve the auxiliary diagnosis and treatment capabilities in remote medical services, and to achieve a more comprehensive customer reach through remote TCM diagnosis and treatment services. Through digitalization, the Group can elaborate the patient services in a more sophisticated way, and continuously improve the Group's customer retention rate as well as average revenue per user (ARPU). Through digital capabilities, we will continue to improve the economics of scale and operational efficiency of the supply chain while ensuring the constant stability of medical service quality. In the future, we will continue to explore new membership service models (such as family doctor services) to attract new members and continue to provide quality services to our members.

3. We will further strengthen our investment in research and development to achieve the productization and standardization of medical solutions. We have completed trial production for several varieties of our in-hospital preparations including hair loss, rhinitis, infertility and digestion, and will apply for filing and receive the preparation registration number. Currently, our preparation center has completed its engineering construction, equipment verification and variety trial production, and has submitted the application for inspection of preparation center application to the relevant authorities. After obtaining the registration number of in-hospital preparations and the completion of inspection and acceptance of our preparation center, our in-hospital preparation will be mass-produced in our preparation center and achieve the productization of medical resolutions products. We are expected to further increase investment in this aspect in the future, so as to obtain more in-hospital preparation production.

4. Strengthening risk management and internal control to ensure steady growth. We are stepping up our effort to the risks accompanying by our fast growth and expansion. We will continue to upgrade our ERP system to enhance our information management capabilities and our ability to obtain information in a timely manner. We will also strengthen our control process and credit risk management to cope with growing credit risk arising from our diversified business model. Along with our business expands, we are exposed to the risk of price inflation of raw materials and insufficient supply of raw materials under emerging market situation. Based on our market research and forward-looking analysis, we will establish a strategic reserve mechanism for TCM medicinal and extend our business reach to upstream so as to cope with the above risks.

We have adhered to our core value of better serving our customers with "conscientious physicians, reliable pharmaceuticals" (良心醫, 放心藥). Our Group is committed to providing high-quality TCM services for the public, and deeply practising the country's call for building a healthy China.

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

FINANCIAL REVIEW

Revenue by Business Segment

Total consolidated revenue increased by 48.3% from approximately RMB925.4 million for the year ended December 31, 2020 to approximately RMB1,372.1 million for the year ended December 31, 2021, primarily due to the business expansion through acquisition, increase in the provision of TCM healthcare service and growth in provision of the healthcare products online.

Provision of healthcare solutions

Revenue from the provision of healthcare solutions increased by 50.6% from approximately RMB891.8 million for the year ended December 31, 2020 to approximately RMB1,343.0 million for the year ended December 31, 2021, primarily attributable to expanded service capacity in line with the increased scale in offline and online medical service network operated by the Group.

Sale of healthcare products

Revenue from the sales of healthcare products decreased by 13.3% from approximately RMB33.6 million for the year ended December 31, 2020 to approximately RMB29.1 million for the year ended December 31, 2021, primarily due to the Group ceased product line for certain non-performing products.

Revenue breakdown by settlement methods

Depending on the relevant practice with respect to national reimbursement programs (國家醫保報銷方案), our medical institutions which are Designated Medical Institutions may be subject to government approved annual quota for the medical fees that they are allowed to recover from the relevant public medical insurance bureau. The following table sets forth the Group's revenue breakdown by settlement methods for the years indicated:

	Year ended 2021 RMB'000	%	Year ended 2020 RMB'000	%	Fluctuation 2021/2020 %
Revenue within the scope of public medical insurance program	**380,858**	**27.8%**	267,088	28.9%	42.6%
— *From social pooling*	***181,044***	***13.2%***	*131,446*	*14.2%*	*37.7%*
— *From individual accounts*	***199,814***	***14.6%***	*135,642*	*14.7%*	*47.3%*
Revenue out of the scope of public medical insurance program	**991,241**	**72.2%**	658,278	71.1%	50.6%
Total	**1,372,099**	**100%**	925,366	100%	48.3%

Percentage of revenue within the scope of public medical insurance program decreased by 1.1% in 2021 as compared with the same period of 2020, which was mainly due to the fact that our strong customer loyalty enhances their willingness to accept our premium all-round healthcare services, which included certain self-paying items.

Revenue by stream

The following table sets forth the Group's revenue breakdown by stream for the years indicated:

	Year ended 2021 RMB'000	%	Year ended 2020 RMB'000	%	Fluctuation 2021/2020 %
Offline medical institutions	**1,218,892**	**88.8%**	901,288	97.4%	35.2%
Online healthcare platforms	**153,207**	**11.2%**	24,078	2.6%	536.3%
Total	**1,372,099**	**100.0%**	925,366	100.0%	48.3%

Revenue from offline medical institutions increased by 35.2% from approximately RMB901.3 million for the year ended December 31, 2020 to approximately RMB1,218.9 million for the year ended December 31, 2021, primarily attributable to the organic growth of our Group and the increased scale in offline medical service network operated by the Group. Revenue from online healthcare platforms increased by 536.3% from approximately RMB24.1 million for the year ended December 31, 2020 to approximately RMB153.2 million for the year ended December 31, 2021, primarily due to (a) the acquisition of Bailu was only completed on October 2020, (b) our Group further acquired Wanjia Platform on April 2021, (c) the synergy effect between our offline medical institutions and online healthcare platforms, and (d) the continuous spread of COVID-19 increased the customer demand for online healthcare solutions.

Cost of Sales

The Group's cost of sales primarily consists of human resources costs and cost of healthcare products. During the year ended December 31, 2021, cost of sales has increased by 54.1% from approximately RMB487.9 million for the year ended December 31, 2020 to approximately RMB751.8 million for the year ended December 31, 2021, primarily due to the continuous increase in human resources costs caused by the expansion in physician base and the increase of cost of healthcare products which is in line with the enlarged business scale of the Group.

Gross Profit and Gross Profit Margin

During the year ended December 31, 2021, gross profit grew to RMB620.3 million from RMB437.5 million for the year ended December 31, 2020 primarily due to the increase in the gross profit generated from the provision of healthcare solutions, which was generally in line with the increase in revenue generated from the provision of healthcare solutions. Gross profit margin slightly decreased from 47.3% for the year ended December 31, 2020 to 45.2% for the year ended December 31, 2021, primarily due to a decrease in the gross profit margin for providing healthcare solutions, which was caused by our expanding online operations and the higher human resources costs our online healthcare platforms.

Other Income and Gains

During the Reporting Period, the Group's other income and gains increased from approximately RMB11.5 million for the year ended December 31, 2020 to approximately RMB22.3 million for the year ended December 31, 2021 primarily due to the recognition of foreign exchange differences of approximately RMB15.3 million for the year ended December 31, 2021.

Selling and Distribution Expenses

	31 December 2021		31 December 2020		Fluctuation
	RMB'000	%	RMB'000	%	%
Operating expenses for offline medical institutions	**228,850**	**55.3%**	158,950	61.2%	44.0%
Regional operating management expenses	**162,120**	**39.2%**	92,022	35.4%	76.2%
Equity-settled share-base payments	**18,621**	**4.5%**	4,232	1.6%	340.0%
Third-party client acquisition costs	**3,935**	**1.0%**	4,500	1.7%	(12.6%)
Total	**413,526**	**100.0%**	259,704	100.0%	59.2%

The Group's selling and distribution expenses mainly comprised of operating expense for offline medical institution, regional operating management expenses, employee stock ownership plan and third-party client acquisition costs. Operating expenses for offline medical institutions mainly represented the regular operating expense of offline medical institutions such as salaries, bonus and depreciation. Regional operating management expenses mainly represent operating expenses and salaries and bonus for the employee of our regional operating department. Equity-settled share-base payments mainly represented the one-off share-based payment for senior management of the Group's sales department. The third-party client acquisition costs mainly represent costs and expenses our Group incurred under the cooperation with third-party online platforms which provide our Group with customer traffic.

Selling and distribution expenses increased by 59.2% from approximately RMB259.7 million for the year ended December 31, 2020 to approximately RMB413.5 million for the year ended December 31, 2021, primarily due to (a) the growth in operating expenses for offline clinics which is in line with the enlarged business scale and (b) increase in regional operating management expenses in order to cooperate with the Group's strategy to expand our market share and lay firm foundations for our future regional development.

Our efficient customer acquisition will drive sustainable long-term growth. We have an advantage in efficient customer acquisition, empowered by our superior brand reputation. Our leading resources of physicians coupled with product and service excellence, has enabled us to develop long-term customer relationship with our customers. The stable customer relationship among our high-quality and loyal customer base, laying the foundation for high revenue growth. Since our customers demonstrated strong willingness for "word-of-mouth" referral of our brand to their private traffic, we are able to drive sustainable growth without incurring high customer acquisition cost.

In 2021, 95% of the customers come from our official WeChat account, walk-in customers, proprietary online healthcare platform, mini programs and customer service appointment where 5% of our new customers are from third-party online platforms. In 2020, 96% of the customers come from our official WeChat account, walk-in customers, proprietary online healthcare platform, mini programs and customer service appointment where 4% of our customers are from third-party online platforms. Third-party client acquisition costs incurred for the year ended 2020 and 2021 amount to RMB4.5 million and RMB3.9 million, respectively.

Administrative Expenses

During the Reporting Period, the Group's administrative expenses significantly increased by 252.4% from approximately RMB70.4 million for the year ended December 31, 2020 to approximately RMB248.0 million for the year ended December 31, 2021 primarily due to the significant increase in employee benefit expenses as a result of equity-settled share-base payment expense in relation to the grant of ordinary shares to certain employees at a discounted subscription price.

Fair value changes of convertible redeemable preferred share and convertible bonds

Fair value changes of convertible redeemable preferred shares and convertible bonds represented the fair value fluctuation of convertible redeemable preferred shares and convertible bonds. The fair value of convertible redeemable preferred shares and convertible bonds was determined with reference to the valuation of the Shares and embedded derivatives by an independent third-party valuer, which was mainly affected by financial forecast for the Group's future performance.

As at December 31, 2021, the Group's fair value of convertible redeemable preferred shares and convertible bonds amounted to approximately RMB419.5 million (2020: approximately RMB316.2 million), which was primarily due to changes in fair value of convertible redeemable preferred shares.

Other Expenses

During the Reporting Period, the Group's other expenses primarily consist of listing expenses, impairment of non-financial assets, donation, impairment of financial assets and loss on early termination of lease. Other expenses significantly increased by 369.1% from approximately RMB11.1 million for the year ended December 31, 2020 to approximately RMB52.2 million for the year ended December 31, 2021, primarily due to the listing expenses of approximately RMB42.7 million incurred.

Finance Costs

Finance cost decreased by 15.2% from approximately RMB33.5 million for the year ended December 31, 2020 to approximately RMB28.4 million for the year ended December 31, 2021, primarily due to the repayment of convertible bonds in 2021.

Income Tax Expenses

Income tax decreased by 182.1% from approximately RMB13.6 million for the year ended December 31, 2020 to approximately RMB11.1 (negative) million for the year ended December 31, 2021, primarily due to the recognition of deferred tax on tax losses from previous periods.

Loss for the Year

Loss for the year increased by 98.5% from approximately RMB255.3 million for the year ended December 31, 2020 to approximately RMB506.9 million for the year ended December 31, 2021, primarily due to (i) increase in fair value change of financial liabilities at fair value through profit or loss in the amount of approximately RMB103.3 million in connection with the convertible redeemable preferred shares and the convertible bonds of the Company; (ii) increase in equity-settled share-based payment in the amount of approximately RMB156.0 million in relation to the share options granted under the Pre-IPO Share Option Plan; and (iii) increase in listing expense in the amount of approximately RMB34.2 million.

Non-HKFRS Measure — Adjusted Net Profit

To supplement its historical financial information which are presented in accordance with HKFRS, the Group also uses adjusted net profit as an additional financial measure, which is unaudited in nature and is not required by, or presented in accordance with, HKFRS. The Group believes that this non-HKFRS measure facilitates comparisons of operating performance from period to period by eliminating potential impacts of items that the management does not consider to be indicative of its operating performance. The Group believes that this measure provides useful information to investors and others in understanding and evaluating its results of operations in the same manner as it helps the Group's management. However, the Group's presentation of adjusted net profit may not be comparable to similarly titled measures presented by other companies. The use of this non-HKFRS measure has limitations as an analytical tool, and the investors should not consider it in isolation from, or as substitute for analysis of, the Group's results of operations or financial condition as reported under HKFRS.

The Group defined adjusted net profit as losses for the period adjusted for items which are non-recurring or extraordinary, including (i) fair value change of financial liabilities at fair value through profit or loss in connection with the convertible redeemable preferred shares and the convertible bonds of the Company; (ii) equity-settled share-based payment in relation to the share options granted under the Pre-IPO Share Option Plan as defined in the prospectus of the Company dated November 30, 2021 and (iii) the non-recurring expense[(2)]. The Group eliminates the potential impacts of these items that the management does not consider to be indicative of the Group's operating performance, as they are either non-operating or non-recurring expenses of the Group.

Adjusted net profit for the year ended December 31, 2021 increased by 85% from approximately RMB84.7 million for the year ended December 31, 2020 to approximately RMB156.7 million for the year ended December 31, 2021, primarily due to the continuous and rapid growth in revenue of existing medical institutions.

	31 December 2021	31 December 2020
Losses for the year	**(506,886)**	(255,328)
Adjustments for[1]:		
Fair value changes of financial instrument	**419,490**	316,194
Equity-settled share option expense	**171,405**	15,361
Non-recurring expense[2]	**72,710**	8,482
Adjusted net profit	**156,719**	84,709

Notes:

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

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

Liquidity, Financial Resources and Capital Structure

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

As at December 31, 2021, we had cash and cash equivalents of RMB1,030.7 million (December 31, 2020: RMB250.0 million), which were denominated in RMB. As at December 31, 2021 we had interest-bearing bank and other borrowings of an aggregate amount of RMB84.3 million (December 31, 2020: RMB145.1 million), which were denominated in RMB with interest rates from 4.04% to 6.00% per annum. Interests are charged at fixed rates and floating rates. The Group did not carry out any interest rate hedging policy.

The Group aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The Group finances its working capital requirements through a combination of funds generated from operations and alternative funding resources from equity and debt. The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

Treasury Policy

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

Contingent Liabilities

As at December 31, 2021, we did not have any contingent liabilities.

Gearing Ratio

As of December 31, 2021, the gearing ratio (being the total interest-bearing borrowings divided by the total equity as of the end of the year) of the Group was 5.4%.

Foreign Currency Risk

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

Pledge of Assets

The following assets were pledged as securities for interest-bearing bank and other borrowings:

	2021 **RMB'000**	2020 RMB'000
Trade receivables	–	16,256
Prepayments, other receivables and other assets	–	60,317
	–	76,573

Capital Expenditures

The capital expenditure during the year ended December 31, 2021 was primarily related to (i) purchases of property, plant and equipment; (ii) expenditures on renovation of our medical institutions, and (iii) expenditures on purchases of intangible assets such as software. For the year ended December 31, 2021, the Group incurred capital expenditure in an aggregate amount of approximately RMB53.0 million (2020: approximately RMB17.0 million), which are primarily attributable to the increase of expenditures on renovation.

Significant Investments Held

The Group did not hold any significant investments during the year ended December 31, 2021.

Material Acquisitions and Disposals

Save as the acquisitions, of certain subsidiaries and assoicates disclosed in the Notes 34 and 17 to the consolidated financial statements, respectively, the Company has no other material acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended December 31, 2021.

Future Plans for Material Investments or Capital Assets

As at December 31, 2021, save for the "Future Plans and Use of Proceeds" disclosed in the Prospectus, the Group did not have any existing plan for acquiring other material investments or capital assets.

EMPLOYMENT AND REMUNERATION POLICY

As at December 31, 2021, the Group had 1,661 employees (December 31, 2020: 1,411 employees). For the year ended December 31, 2021, the staff cost of Group were approximately RMB344.0 million (2020: approximately RMB181.1 million), including pension and housing fund and equity-settled share-based payments.

Remuneration packages for employees mainly comprise base salary and performance-based bonus. Performance targets for employees primarily based on their position and department and periodically review their performance. The results of such reviews are used in their salary determinations, bonus awards and promotion appraisals. Selected Directors, senior management and employees were offered to participate in the Pre-IPO Share Option Plan.

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

To maintain and enhance the knowledge and skill levels of workforce, employees are provided with internal training, including orientation programs for new employees and technical training for existing employees. External training opportunities are offered to management team and medical professionals.

FINAL DIVIDENDS

The Board does not recommend the distribution of a final dividend for the fiscal year ended December 31, 2021.

USE OF PROCEEDS FROM GLOBAL OFFERING

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

The following table sets out the intended use of the Net Proceeds, actual usage up to December 31, 2021, as well as the expected timeline for utilization:

	Net Proceeds and utilization				
	% of the Net Proceeds	Amount available for utilization HK$ million	Utilized amount as of December 31, 2021 HK$ million	Remaining amount as of December 31, 2021 HK$ million	Expected timeline for utilization[1]
To expand our offline and online operations and enhance the integration between them	69.9%	541.3	–	541.3	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	–	74.8	by the end of 2025

	Net Proceeds and utilization				
	% of the Net Proceeds	Amount available for utilization HK$ million	Utilized amount as of December 31, 2021 HK$ million	Remaining amount as of December 31, 2021 HK$ million	Expected timeline for utilization[(1)]
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	–	74.8	by the end of 2025
For marketing and branding activities	4.9%	38.3	–	38.3	by the end of 2025
For working capital and general corporate purposes	6.0%	46.7	8.0	38.7	by the end of 2025
Total	100.0%	775.9	8.0	767.9	

Note:

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

During the period from the Listing Date to the date of this report, the Group has utilized net proceeds of approximately HK$8.0 million from the global offering. The remaining net proceeds were deposited in banks as of the date of this report. The Group will gradually utilize the proceeds from the global offering in accordance with the intended purposes as set out in the Prospectus.

DIRECTORS

Executive Director

Mr. Tu Zhiliang (涂志亮), aged 43, founded our Group in September 2010 and was appointed as our Director on May 8, 2014, chairman of the Board and the chief executive officer of our Company on August 21, 2014 and was re-designated as our executive Director on May 25, 2021. Mr. Tu is the chairman of the Nomination Committee. Mr. Tu is primarily responsible for the overall corporate and business strategies, overseeing the management and operation of our Group. Mr. Liu Kanghua, a non-executive Director, is the brother-in-law of Mr. Tu.

With over 17 years of experience in healthcare industry, Mr. Tu has gained an in-depth understanding of healthcare services and products and acquired rich management experience by managing our Group and developing our business. Prior to the foundation of our Group in September 2010, he served at iKang Health Technology Group Company Limited (愛康健康科技集團有限公司), a health management group operating healthcare service centers in the PRC from December 2004 to November 2009, where he served as various positions including the sales manager in Guangdong branch, deputy general manager of South China, supervisor of sales, senior supervisor and deputy general manager of North China, assistant to the chairman and deputy general manager of Eastern China, and the executive deputy general manager in Shenzhen. In September 2010, Mr. Tu founded Guangdong Gushengtang and has been the chairman of the board since then. He also served as the general manager of Guangdong Gushengtang from its establishment to March 2021. Mr. Tu has also been serving as a director of several subsidiaries of the Company, including but not limited to Gushengtang Hong Kong since May 2014, and a supervisor of various members of the Group, including but not limited to Nanjing Gushengtang Ningxi TCM Out-patient Department Co., Ltd. (南京固生堂寧西中醫門診部有限公司) since July 2016, Fuzhou Gushengtang General Out-patient Co., Ltd. (福州固生堂綜合門診有限公司) since August 2016, and Shanghai Wanjia TCM Out-patient Co., Ltd. (上海萬嘉中醫門診有限公司) since October 2016.

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

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

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

Directors and Senior Management

Non-executive Directors

Mr. Jiang Xiaodong (蔣曉冬), aged 45, was appointed as our Director on August 21, 2014 and re-designated as our non-executive Director on May 25, 2021, and is responsible for providing strategic advice and making recommendations on financial management and business development to our Board. Mr. Jiang is a member of the Audit Committee.

Mr. Jiang has over 16 years of experience in investment industry. Mr. Jiang began his investing career in May 2005 at New Enterprise Associates, Inc., an American-based worldwide venture capital firm. From January 2006 to December 2016, Mr. Jiang served as the managing director of its China office, New Enterprise Associates (Beijing) Ltd. and was responsible for investments in China for 11 years. In August 2016, Mr. Jiang founded Long Hill Capital Venture Partners 1, L.P. and has been responsible for the investment, financing and management of the funds.

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

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

Mr. Huang Jingsheng, aged 64, was appointed as our Director on August 21, 2014 and re-designated as our non-executive Director on May 25, 2021, and is responsible for providing strategic advice and making recommendations on financial management and business development to our Board. Mr. Huang is a member of the Remuneration Committee.

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

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

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

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

Mr. Xu Yongjiu (徐永久), aged 44, was appointed as our Director on July 15, 2017 and re-designated our non-executive Director on May 25, 2021 and is responsible for providing strategic advice and making recommendations on financial management and business development to our Board.

Mr. Xu has about 13 years of experience in strategy and investment. From April 2009 to December 2009, Mr. Xu joined Shanghai International Group Company Limited (上海國際集團有限公司) and served as a senior project manager of strategic development department. From December 2009 to June 2011, he served at Shanghai International Trust Co., Ltd. (上海國際信託投資有限公司). From November 2011 to August 2016, he served at the vice president of investment director of GP Capital Co., Ltd (金浦產業投資基金管理有限公司). Since September 2016, he has served as the managing director of investment at GP Health Service Capital Co., Ltd (上海金浦健服股權投資管理有限公司). Since October 2021, Mr. Xu has served as a shareholder representative supervisor of Wunzhou Kangning Hospital Co., Ltd. (溫州康寧醫院股份有限公司) (Stock Code: 2120.HK).

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

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

Mr. Liu Kanghua (劉康華), aged 35, was appointed as our non-executive Director on May 25, 2021 and is responsible for providing strategic advice and making recommendations on financial management and business development to our Board. Mr. Liu is the brother-in-law of Mr. Tu, an executive Director.

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

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

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

Mr. Gao Jian (高建), aged 59, was appointed as our non-executive Director on May 25, 2021 and is responsible for providing strategic advice and making recommendations on financial management and business development to our Board.

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

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

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

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

Independent Non-executive Directors

Ms. Jin Xu (金旭), aged 53, was appointed as our independent non-executive Director on November 16, 2021 and is responsible for providing independent opinion and judgement to our Board. Ms. Jin is a chairwoman of the Remuneration Committee and a member of the Nomination Committee.

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

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

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

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

Mr. Li Tie (李鐵), aged 44, was appointed as our independent non-executive Director on November 16, 2021 and is responsible for providing independent opinion and judgement to our Board. Mr. Li is a chairman of the Audit Committee and a member of the Remuneration Committee.

Mr. Li has over 19 years of experience in financing and accounting. From August 2002 to February 2008, he worked at Beijing office of PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) (普華永道中天會計師事務所(特殊普通合夥)). From March 2008 to June 2016, he served at Autohome Inc. (Stock Code: ATHM.NYSE), an online destination for automobile consumers in China, as a vice president. Since July 2016, he has served as a director and chief financial officer of Li Auto Inc. (Stock Code: 2015.HK and LI.NASDAQ), a new energy intelligent electric vehicle manufacturer in China.

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

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

Mr. Wu Taibing (吳太兵), aged 46, was appointed as our independent non-executive Director on November 16, 2021 and is responsible for providing independent opinion and judgement to our Board. Mr. Wu is a member of the Audit Committee and Nomination Committee.

Mr. Wu has approximately 19 years of experience in corporate management. He has been serving as the chairman and chief executive officer in Wanxing Technology Group Co., Ltd. (萬興科技集團股份有限公司) (Stock Code: 300624.SZ), a software products and services provider, since October 2003. Mr. Wu was awarded as the "2020 New Era Business Leader" (2020新時代商業領袖) by the Ninth China Finance Summit in August 2020 and the "Top Ten Entrepreneur of the Year 2018" (2018十大年度創業家) from The Founder & I Dark Horse (創業家&i黑馬) in 2018. He was also the member of fifth Shenzhen Nanshan District Chinese People's Political Consultative Conference (深圳市南山區政協). He is the member of seventh council and the vice chairman of Shenzhen Software Industry Association (深圳市軟件行業協會).

Mr. Wu received a master's degree in business administration from Shanghai Jiaotong University (上海交通大學) in March 2005.

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

SENIOR MANAGEMENT

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

Mr. Deng Shigang (鄧仕剛), aged 49, was appointed as the chief financial officer of our Group on August 5, 2019, primarily responsible for overseeing the mergers, acquisitions and financing and taking charge of financial management and capital operating system of our Group.

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

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

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

Ms. Li Jie (李潔), aged 43, was appointed as the vice president of our Group on October 16, 2019, primarily responsible for overseeing the operation in Shenzhen business area and supervising the operation in Suzhou, Wuxi, Ningbo and Fuzhou business areas.

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

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

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

Mr. Zheng Xiang (鄭項), aged 37, was appointed as the vice president of our Group on September 9, 2020 and is primarily responsible for taking charge of establishment and development of the technology system, leading the promotion and expansion of online hospital with TCM healthcare services.

Mr. Zheng has nearly 15 years of experience in Internet and medicine industry. From July 2007 to October 2009, he served at NR Electric Co., Ltd. From October 2010 to July 2015, he served as the chief operation officer at Nanjing Jinchuangneng Network Technology Co., Ltd. (南京金創能網路技術有限公司) and co-founded Nanjing Dianzan Network Technology Co., Ltd. (南京點贊網路科技有限公司), a company engaged in e-commerce services. From September 2015 to November 2016, he worked at Chia Tai Tianqing Pharmaceutical Group Co., Ltd. (正大天晴藥業集團股份有限公司), a non-wholly owned subsidiary of SINO Biopharmaceutical Limited (中國生物製藥有限公司) (Stock Code: 1177.HK), where he served as the manager on internet product operation. From August 2016 to July 2020, he founded Nanjing Yikang Information Technology Co., Ltd. (南京一康信息技術有限公司). He has been the partner of our Group since September 2020 and a vice president of our Group since September 2020. Mr. Zheng has also been serving as a director and the legal representative of Nanjing Baihui Yunyi Technology Co., Ltd. (南京百會雲醫科技有限公司) since July 2019, Guangzhou Gushengtang Internet Hospital Management Co., Ltd. (廣州固生堂互聯網醫院管理有限公司) since March 2021, and Shanghai Wanlian Pharmacy Co., Ltd. (上海萬聯大藥房有限公司) since June 2021, and the general manager of Guangzhou Gushengtang Internet Hospital Management Co., Ltd. (廣州固生堂互聯網醫院管理有限公司) since March 2021.

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

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

Ms. Zhang Qiumin (張秋敏), aged 39, was appointed as a regional general manager of our Group on January 1, 2018, mainly responsible for overseeing the overall business operation in Shanghai and Beijing business areas of our Group.

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

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

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

JOINT COMPANY SECRETARIES

Ms. Xie Xiaoping (謝小平), aged 45, was appointed as one of the joint company secretaries of our Company.

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

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

Ms. Lau Jeanie (劉准羽), aged 44, was appointed as one of the joint company secretaries of our Company. Ms. Lau is an assistant vice president of corporate secretarial department of SWCS Corporate Services Group (Hong Kong) Limited. She is an associate member of both The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in England and The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries). She has over 15 years of experience in corporate secretarial practice. She has been providing corporate services to companies overseas and in Hong Kong. Ms. Lau had been a company secretary of various listed companies on the Main Board of the Stock Exchange over the last 10 years.

Directors' Report

The Board is pleased to present the Directors' report of the Company for the financial year ended December 31, 2021.

COMPANY INFORMATION

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

PRINCIPAL ACTIVITIES

The Group is a TCM healthcare service provider in China. Through our offline medical institutions and online healthcare platforms, the Group provides customers with a comprehensive range of TCM healthcare services and products to address their diverse medical and healthcare management needs during the year ended December 31, 2021.

RESULTS

The results of the Group for the year ended December 31, 2021 are set out in the section headed "Management Discussion and Analysis" of this annual report and the consolidated financial statements on pages 147 to 267.

BUSINESS REVIEW AND FUTURE DEVELOPMENT

The review of the Group's business during the year ended December 31, 2021, which includes an analysis of the Company's performance using financial key performance indicators, particulars of important events affecting the Company during the year, and an indication of likely future developments in the Company's business are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. Discussions on the Group's environmental policies and performance, the Group's compliance with the relevant laws and regulations that have a significant impact on the Group, and the Group's key relationships with its employees, customers and suppliers and others that have a significant impact on the Group and on which the Group's success depends are set out in the section headed "Environmental, Social and Governance Report" of this annual report. The Group's financial risk management objectives and policies are set out in note 41 to the consolidated financial statements. There is no subsequent event after the Reporting Period which has material impact to the Group. These discussions form part of this directors' report.

FINAL DIVIDENDS

The Board does not recommend the distribution of a final dividend for the fiscal year ended December 31, 2021. The Group is not aware of any arrangement under which a Shareholder has waived or agreed to waive any dividends.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year ended December 31, 2021 are set out in Note 13 to the consolidated financial statements.

BANK AND OTHER BORROWINGS

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

RESERVE AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company during the year ended December 31, 2021 are set out in Note 42 to the consolidated financial statements. As at December 31, 2021, the distributable reserve of the Company amounted to approximately RMB1,593.6 million.

SHARE CAPITAL

Details of the movements in the share capital of the Group during the year are set out in Note 29 to the consolidated financial statements.

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

Since the Listing Date and up to December 31, 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

The Directors during the year ended December 31, 2021 and up to the date of this report were as follows:

Executive Director

Mr. Tu *(Chairman)*

Non-Executive Directors

Mr. Jiang Xiaodong
Mr. Huang Jingsheng
Mr. Xu Yongjiu
Mr. Liu Kanghua (Appointed on May 25, 2021)
Mr. Gao Jian (Appointed on May 25, 2021)

Independent Non-executive Directors

Ms. Jin Xu (Appointed on November 16, 2021)
Mr. Li Tie (Appointed on November 16, 2021)
Mr. Wu Taibing (Appointed on November 16, 2021)

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

In accordance with Article 109 of the Articles of Association, Mr. Huang Jingsheng (non-executive Director), Mr. Xu Yongjiu (non-executive Director) and Mr. Liu Kanghua (non-executive Director) shall retire by rotation at the forthcoming AGM and being eligible, have offered themselves for re-election at the AGM.

DIRECTORS' SERVICE CONTRACT AND LETTERS OF APPOINTMENT

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

PERMITTED INDEMNITY PROVISION

The Articles of Association provide that every Director shall be entitled to be indemnified out of the assets of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses as a result of any act or failure to act in carrying out his/her functions. Such provisions were in force during the course of the financial year ended December 31, 2021 and remained in force as at the date of this report.

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

EMPLOYEES AND REMUNERATION POLICY

The Company had 1,661 employees as at the end of the year ended December 31, 2021 as compared to 1,411 employees as at December 31, 2020. The Company entered into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits and liabilities for breaches and grounds for termination.

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

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

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

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

DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

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

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

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

As at December 31, 2021, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO, or (iii) notified to the Company and the Stock Exchange under the Model Code, were as follows:

(i) Interests in the Shares of the Company

Name	Nature of interest	Long/short position	Number of Shares	Approximate percentage of interest in the total share capital of the Company[1]
Mr. Tu[2][3][4][5]	Interest in controlled corporations	Long position	30,043,777	13.04%
	Interest of a party to an agreement regarding interest in the Company	Long position	34,872,955	15.14%
	Protector and power holder of a discretionary trust	Long position	18,733,795	8.13%
	Beneficial owner	Long position	11,330,176	4.91%
Jiang Xiaodong[6]	Interest in controlled corporations	Long position	13,231,505	5.74%
Huang Jingsheng[7][8]	Trustee	Long position	300,000	0.13%
	Interest of spouse	Long position	936,094	0.41%

Notes:

(1) As at December 31, 2021, the total number of issued Shares was 230,396,458.

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

(3) Pursuant to the Voting Deeds, Mr. Tu has controlled an aggregate of 15.14% of the voting power at general meeting of the Company, being the voting rights attached to all Shares directly held by Gushengtang Ltd., Shiyimianshan Holdings Limited, Shiermianshan Holdings Limited, Shisanmianshan Holdings Limited, Shisimianshan Holdings Limited, Shiwumianshan Holdings Limited, Yijiakang Technology Holdings Limited, Yijiajian Technology Holdings Limited, Yijiale Technology Holdings Limited and Yijiaan Technology Holdings Limited.

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

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

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

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

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

(ii) Interest in associated corporation of the Company

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

Note:

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

Save as disclosed above, so far as the Directors are aware, as at December 31, 2021, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO, or (iii) notified to the Company and the Stock Exchange under the Model Code.

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

As at December 31, 2021, the following persons (other than the Directors and chief executives of the Company) had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company, pursuant to Section 336 of the SFO:

Name	Nature of interest	Long/short position	Number of Shares	Approximate percentage of interest in the total share capital of the Company[1]
Wumianshan Ltd.[2]	Interest in controlled corporations	Long position	30,043,777	13.04%
Action Thrive[2]	Beneficial owner	Long position	26,832,533	11.65%
Dream True[3]	Beneficial owner	Long position	18,733,795	8.13%
Tu Family Holdings Limited[3]	Interest in controlled corporations	Long position	18,733,795	8.13%
Frandor Limited[3]	Interest in controlled corporations	Long position	18,733,795	8.13%
Trident Trust Company (Singapore) Pte. Limited[3]	Trustee	Long position	18,733,795	8.13%
Gushengtang Ltd.	Beneficial owner	Long position	15,921,267	6.91%
Starr International Investments HK V, Limited[4]	Beneficial owner	Long position	18,204,009	7.90%
Starr International Company, Inc.[4]	Interest in controlled corporations	Long position	18,204,009	7.90%
Starr International Foundation[4]	Interest in controlled corporations	Long position	18,204,009	7.90%
Asia Ventures III L.P.[5]	Beneficial owner	Long position	17,374,533	7.54%
Asia Partners III L.P.[5]	Interest in controlled corporations	Long position	17,374,533	7.54%
Eight Roads GP[5]	Interest in controlled corporations	Long position	18,506,005	8.03%
Eight Roads GP Asia Limited[5]	Interest in controlled corporations	Long position	18,506,005	8.03%
Eight Roads Investments[6]	Interest in controlled corporations	Long position	26,437,151	11.47%
Impresa Fund III Limited Partnership[6]	Interest in controlled corporations	Long position	26,437,151	11.47%

Name	Nature of interest	Long/short position	Number of Shares	Approximate percentage of interest in the total share capital of the Company[1]
Eight Roads Holdings Limited[6]	Interest in controlled corporations	Long position	26,437,151	11.47%
Eight Roads Shareholdings Limited[6]	Interest in controlled corporations	Long position	26,437,151	11.47%
FIL Limited[6]	Interest in controlled corporations	Long position	26,437,151	11.47%
Pandanus Partners L.P.[6]	Interest in controlled corporations	Long position	26,437,151	11.47%
Pandanus Associates Inc.[6]	Interest in controlled corporations	Long position	26,437,151	11.47%
Impresa Management LLC[7]	Interest in controlled corporations	Long position	26,437,151	11.47%
Abigail P. Johnson[7]	Interest in controlled corporations	Long position	26,437,151	11.47%
Edward C. Johnson IV[7]	Interest in controlled corporations	Long position	26,437,151	11.47%
FMR LLC[7]	Interest in controlled corporations	Long position	26,437,151	11.47%
New Enterprise Associates 14, L.P.[8]	Beneficial owner	Long position	17,878,548	7.76%
NEA Partners 14, L.P[8]	Interest in controlled corporations	Long position	17,878,548	7.76%
NEA 14 GP, LTD[8]	Interest in controlled corporations	Long position	17,878,548	7.76%

Notes:

(1) As at December 31, 2021, the total number of issued Shares was 230,396,458.

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

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

(4) Starr International Investments HK V, Limited is wholly owned by Starr International Company, Inc., a Swiss corporation, which is in turn owned by Starr International Foundation, a Swiss charitable foundation. As such, under the SFO, each of Starr International Company, Inc. and Starr International Foundation is deemed to be interested in the 18,204,009 Shares held by Starr International Investments HK V, Limited.

(5) The general partner of Asia Ventures III L.P. is Asia Partners III L.P., whose general partner is Eight Roads GP. Further, the general partner of ERVC Healthcare IV, L.P. is ERVC Healthcare Advisors IV, LP, whose general partner is Eight Roads GP. Eight Roads GP Asia Limited is the sole shareholder of Eight Roads GP. As such, under the SFO, Asia Partners III L.P. is deemed to be interested in the 17,374,533 Shares held by Asia Ventures III L.P., and Eight Roads GP and Eight Roads GP Asia Limited is deemed to be interested in the 18,506,005 Shares held by Asia Ventures III L.P. and ERVC Healthcare IV, L.P.

(6) Each of Eight Roads Investments and Impresa Fund III Limited Partnership has more than one-third interest in each of Asia Ventures III L.P., ERVC Healthcare IV, L.P. and F-Prime Capital Partners Healthcare Fund IV LP as a limited partner. Eight Roads Holdings Limited is the sole shareholder of Eight Roads GP Asia Limited, and the sole shareholder of Eight Roads Investments. Eight Roads Holdings Limited is owned as to more than one-third by Eight Roads Shareholdings Limited and Pandanus Partners L.P., whose general partner is Pandanus Associates Inc. Eight Roads Holdings Limited is accustomed to act in accordance with FIL Limited's directions, which is in turn owned as to more than one-third by Pandanus Partners, L.P. As such, under the SFO, each of Eight Roads Investments, Impresa Fund III Limited Partnership, Eight Roads Holdings Limited, Eight Roads Shareholdings Limited, FIL Limited, Pandanus Partners L.P. and Pandanus Associates Inc. is deemed to be interested in the 26,437,151 Shares held in the aggregate by Asia Ventures III L.P., ERVC Healthcare IV, L.P. and F-Prime Capital Partners Healthcare Fund IV LP.

(7) The general partner of F-Prime Capital Partners Healthcare Fund IV LP is F-Prime Capital Partners Healthcare Advisors Fund IV LP, whose general partner is Impresa Holdings LLC, whose managing member is Impresa Management LLC, which is controlled (as defined under the SFO) by each of Abigail P. Johnson and Edward C. Johnson IV and owned, directly or indirectly, by various shareholders and employees of FMR LLC. Further, Impresa Management LLC is also the general partner of Impresa Fund III Limited Partnership. As such, under the SFO, each of Impresa Management LLC, Abigail P. Johnson, Edward C. Johnson IV and FMR LLC is deemed to be interested in the 26,437,151 Shares held in the aggregate by Asia Ventures III L.P., ERVC Healthcare IV, L.P. and F-Prime Capital Partners Healthcare Fund IV LP.

(8) NEA 14 GP, LTD has an indirect ownership interest in the Shares held by New Enterprise Associates 14, L.P. as the fact that it is the sole general partner of NEA Partners 14, L.P., which is the sole general partner of New Enterprise Associates 14, L.P. As such, under the SFO, NEA Partners 14, L.P. and NEA 14 GP, Ltd are deemed to be interested in the 17,878,548 Shares held by New Enterprise Associates 14, L.P.

Save as disclosed above, as at December 31, 2021, the Company had not been notified by any person (other than the Directors or the chief executives of the Company) who had an interest or short position in the Shares or the underlying Shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the paragraphs headed "SHARE OPTION PLAN" below and the section headed "Statutory and General Information—D. Pre-IPO Share Option Plan" in Appendix IV of the Prospectus, neither the Company nor any of its subsidiaries was a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate at the end of the year or at any time during the year ended December 31, 2021 and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

CHANGES IN INFORMATION OF DIRECTORS

So far as the Directors are aware and save as disclosed in this report, there has been no other change of information of Directors since the Listing Date up to the date of this report pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

- Chongqing Hedaotang only operates its business in Chongqing, where the Group has not commenced its healthcare business;
- Mr. Xu does not control the board of Chongqing Hedaotang nor the appointment of the directors thereof;
- Mr. Xu serves as a non-executive director in both the Company and Chongqing Hedaotang, and is not involved in the daily management of these two companies; and
- the Company has appointed three independent non-executive Directors, representing one-third of the members of the Board to balance any potential conflict of interests in order to safeguard the interests of the Group and the Shareholders as a whole.

Save as disclosed above, during the year ended December 31, 2021 and up to the date of this report, none of the Directors or their respective associates had engaged in or had any interest in a business, apart from business of the Group, which competes or is likely to compete with the business of the Group, whether directly or indirectly, or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS AND CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, no transactions, arrangements or contracts of significance in relation to the Company's business to which the Company, or any of its subsidiaries was a party and in which a director of the Company or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended December 31, 2021.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions" of this annual report, there was no contract of significance (whether for the provision of services to the Company or not) in relation to the Group's business to which the Group was a party and in which any Controlling Shareholder or any of its subsidiary corporations had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during December 31, 2021.

COMPLIANCE WITH LAWS AND REGULATIONS

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

During the year ended December 31, 2021, the Group has complied with relevant laws and regulations that have a significant impact on the operations of the Group. In addition, relevant employees and relevant operating units are reminded from time to time of paying attention to any changes in applicable laws, provisions and regulations.

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

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

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

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

RELATIONSHIPS WITH KEY STAKEHOLDERS

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

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

CONNECTED TRANSACTIONS

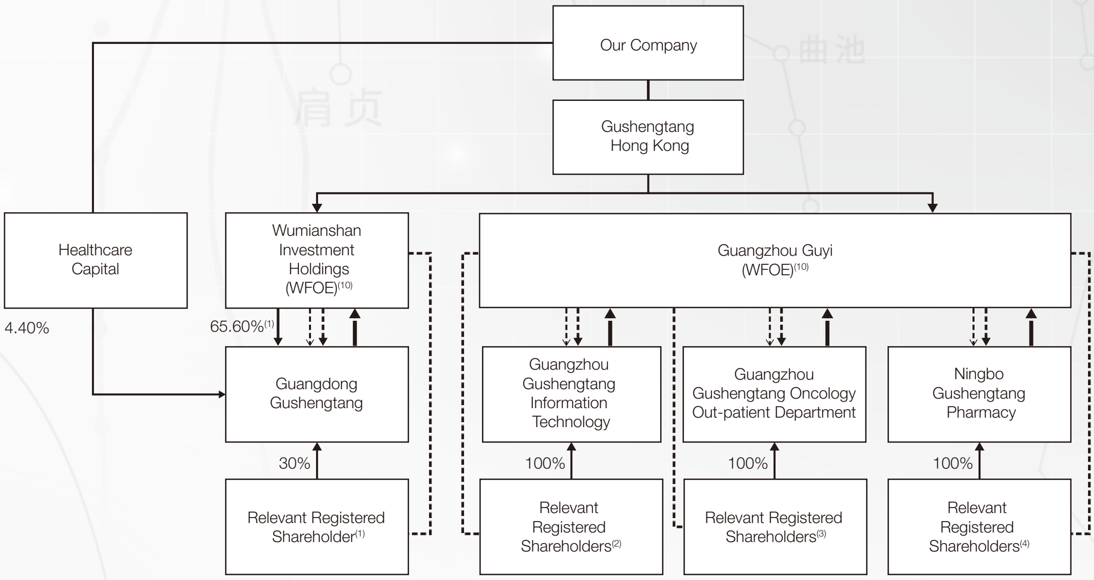
Non-Exempt Continuing Connected Transaction

Contractual Arrangements

Background

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

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



Notes:

(1) Guangdong Gushengtang is owned by Wumianshan Investment Holdings, Healthcare Capital and Mr. Tu as to 65.60%, 4.40% and 30%, respectively, Healthcare Capital is wholly-owned by the Company.

(2) Guangzhou Gushengtang Information Technology is owned by Yan Jun and Zheng Xiang as to 99% and 1%, respectively.

(3) Guangzhou Gushengtang Oncology Out-patient Department is owned by Yan Jun and Zheng Xiang as to 99% and 1%, respectively.

(4) Ningbo Gushengtang Pharmacy is owned by Yan Jun and Zheng Xiang as to 99% and 1%, respectively.

(5) "——→" denotes direct legal ownership in the equity interest

(6) "- - - →" denotes contractual relationship

(7) "- - - -▶" denotes provision of technical and consultation services

(8) "━━▶" denotes payment of service fees

(9) "_ _ _ _ _ _" denotes the control by WFOEs over the Registered Shareholders and the Onshore Holdcos through (i) powers of attorney to exercise all shareholders' rights in the Onshore Holdcos; (ii) exclusive call options to acquire all or part of the equity interests in the Onshore Holdcos; and (iii) equity pledges over the equity interests in the Onshore Holdcos.

(10) Both Wumianshan Investment Holdings and Guangzhou Guyi are mainly engaged in investment management.

Summary of the material terms of the Contractual Arrangements

(1) Exclusive Operation Services Agreements

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

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

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

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

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

(2) Exclusive Options Agreements

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

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

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

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

(3) Equity Pledge Agreements

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

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

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

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

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

(4) Entrustment Agreements and Powers of Attorney

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

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

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

2. to file documents with the relevant companies registry;

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

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

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

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

(5) Spouse Undertakings

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

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

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

	Revenue For the year ended December 31, 2021	Net profit* For the year ended December 31, 2021	Total assets As at December 31, 2021
Significance and financial contribution of the Consolidated Affiliated Entities to the Group	99.5%	(16.5%)	68.4%

* Before service fee charged under the Exclusive Operation Services Agreements

Revenue and total assets involved in the Contractual Arrangements

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

	Revenue For the year ended December 31, 2021 RMB'000	Total assets As at December 31, 2021 RMB'000
Consolidated Affiliated Entities	1,364,668	1,635,674

Qualification Requirements

The Foreign-invested telecommunication enterprises must comply with the Regulations for the Administration of Foreign-invested Telecommunications Enterprises (revised in 2016) (《外商投資電信企業管理規定(2016年修訂)》) (the "**Foreign Investment Telecommunications Rules**") issued by the State Council on December 11, 2001 and further amended on February 6, 2016, which requires foreign-invested telecommunication enterprises to be established as sino-foreign equity joint ventures in which the ultimate proportion of capital contribution from foreign investors shall not exceed 50%. On December 27, 2021, the National Development and Reform Commission and the Ministry of Commerce promulgated the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 Edition) (effective on January 1, 2022), pursuant to which the proportion of foreign shares in a value-added telecommunications business shall not exceed 50%

(except for e-commerce, domestic multi-party communication, storage and forwarding, and call center). In addition, the foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience and a proven good track record in operating value-added telecommunications businesses (the "**Qualification Requirements**").

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

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

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

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

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

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

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

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

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

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

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

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

- major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion as and when they arise;
- the Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;
- the Company will disclose the overall performance and compliance with the Contractual Arrangements in the annual reports; and
- the Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements and the legal compliance of the WFOEs and the Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

Material change in relation to the Contractual Arrangements

During the year ended December 31, 2021, there is no material change in the Contractual Arrangements and/or the circumstances under which they were adopted.

Unwinding the Contractual Arrangements

For the year ended December 31, 2021, none of the Contractual Arrangements had been unwound as none of the restrictions that led to the adoption of the Contractual Arrangements had been removed.

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

Listing Rules implications and a waiver from the Stock Exchange

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

The Stock Exchange has granted a waiver to the Company from strict compliance with (i) the announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Shares are listed on the Stock Exchange, subject to certain conditions. For details, please refer to the section headed "Connected Transactions — Waiver Applications For Non-Exempt Continuing Connected Transaction" in the Prospectus.

Save as disclosed above, during the year ended December 31, 2021, the Group has not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Rule 14A.71 of the Listing Rules. The Company has complied with the disclosure requirements set out in Chapter 14A of the Listing Rules.

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

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

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

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

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

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

(i) the transactions carried out during the year ended December 31, 2021 have been entered into in accordance with the relevant provisions of the Contractual Arrangements;

(ii) no dividends or other distributions have been made by the Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and

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

The Auditor has reviewed the transactions carried out pursuant to the Contractual Arrangements during the year ended December 31, 2021 and advised the Board in writing (with a copy provided to the Stock Exchange) that nothing has come to their attention that causes them to believe (i) the transactions have not been approved by the Board; (ii) the transactions have not been entered into, in all material aspects, in accordance with the relevant agreements governing such transactions; and (iii) the dividends or other distributions had been made by the Consolidated Affiliated Entities to the holders of its equity interests which were not otherwise subsequently assigned or transferred to the Group.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Company during the year ended December 31, 2021 are set out in note 37 to the consolidated financial statements.

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

The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules (as amended from time to time).

TAX RELIEF AND EXEMPTION

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

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

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

Details of our environmental, social and governance performance during the year ended December 31, 2021 are set out in sections headed of "Environmental, Social and Governance Report" and "Corporate Governance Report" of this annual report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed for the year ended December 31, 2021.

SHARE OPTION PLAN

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

1. Purpose

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

2. Who may join

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

3. Scheme limit and Shares available for issue

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

As at the date of this annual report, the total number of Shares available for issue upon the exercise of the options granted under the Pre-IPO Share Option Plan was 16,382,286, representing 7.11% of the total issued Shares as at the date of the annual report.

4. Subscription price for Shares

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

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

5. Time of acceptance and exercise of option

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

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

6. Period of the Pre-IPO Share Option Plan

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

7. Movements in Options

Name of Grantee(s)	Role	No. of Options outstanding as at January 1, 2021	Number of Options granted during the year	Exercise price (per Share)	Date of grant	Vesting period	No. of Options outstanding as at December 31, 2021
Mr. Tu	Executive Director, Chairman, chief executive officer, and one of our Controlling Shareholders	–	818,711 8,815,348 1,696,117	RMB15.53 RMB15.53 US$0.35	November 9, 2021	N/A[3] N/A[4] N/A[3]	11,330,176
Deng Shigang	Chief financial officer	–	1,094,504	US$0.35	November 9, 2021	5 years[5]	1,094,504
Yang Jun	Vice president	–	3,957,606	US$0.35	November 9, 2021	N/A[3]	3,957,606

Notes:

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

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

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

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

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

6. During the year ended December 31, 2021, no Options was exercised, cancelled or lapsed under the Pre-IPO Share Option Plan.

During the Reporting Period, the fair value of options granted under the Pre-IPO Share Option Plan and the model or important assumptions used to estimate the value of options are detailed in note 30 to the consolidated financial statements of this annual report.

EQUITY-LINKED AGREEMENT

Save as disclosed in the "SHARE OPTION PLAN" paragraphs above in this section and the section headed "Statutory and General Information — D. Pre-IPO Share Option Plan" in Appendix IV of the Prospectus, no equity-linked agreement was entered into during the year ended December 31, 2021 and remained in force at the end of the year ended December 31, 2021.

SUBSEQUENT EVENTS

There is no subsequent event after the Reporting Period which has material impact to the Group.

MATERIAL LEGAL, LITIGATION AND ARBITRATION MATTERS

The Company was not involved in any material litigation or arbitration during the fiscal year ended December 31, 2021. The Directors are also not aware of any material litigation or claims that are pending or threatened against the Group since the Listing Date and up to the date of this report.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDIT COMMITTEE

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

The Audit Committee has, together with the management and auditor of the Company, reviewed the accounting practice and policies adopted by the Group and the consolidated financial statements for the year ended December 31, 2021.

ANNUAL GENERAL MEETING

The AGM of the Company will be held on June 16, 2022. 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, 2022 to June 16, 2022, 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 16, 2022 will be June 16, 2022. In order to be eligible for attending the 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 Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on June 10, 2022.

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended December 31, 2021, the Group's five largest customers accounted for less than 30% of the Group's total revenue.

Major Suppliers

For the year ended December 31, 2021, the Group's largest supplier accounted for 15.4% and five largest suppliers accounted for 38.1% of the Group's total purchases.

During the year ended December 31, 2021, to the knowledge of the Directors, none of the Directors, their close associates, or Shareholders (which to the knowledge of the Directors, owned more than 5% of the number of issued Shares) had interests in the five largest customers and suppliers.

FINANCIAL SUMMARY

A summary of the Group's results and assets and liabilities for the last four financial years is set out on page 268 in this annual report. This summary does not form part of the audited consolidated financial statements.

CHARITABLE DONATIONS

For the year ended December 31, 2021, the Group's charitable donations amounted to RMB2.7 million (2020: RMB0.6 million).

AUDITOR

Ernst & Young has audited the consolidated financial statements for the year ended December 31, 2021. A resolution regarding the re-appointment of Ernst & Young as the Group's auditor will be proposed at the AGM. There is no change of auditor since the Listing Date.

By order of the Board
Tu Zhiliang
Chairman
Hong Kong,
March 30, 2022

Corporate Governance Report

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. During the Relevant Period, the Company has adopted the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Company has complied with all applicable code provisions under the CG Code for the period from the Listing Date to December 31, 2021 (except as disclosed below). The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

Having made specific enquiries of all Directors, each of the Directors has confirmed that he/ she has complied with the required standards as set out in the Model Code for the Relevant Period. 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 Relevant Period.

BOARD OF DIRECTORS

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

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

- providing guidance and leadership for corporate and strategic directions of the Group;
- reviewing the financial performance of the Group;
- providing guidance to overall management of the businesses and affairs of the Group;

- setting up broad policies and financial objectives of the Company;
- overseeing the processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance;
- approving the nominations of Directors and appointments of key personnel;
- reviewing and approving investments, mergers and acquisition and disposal transactions;
- approving annual budgets and major funding proposals;
- assuming the responsibility for corporate governance as set out in Appendix 14 of the CG Code;
- reviewing the performance of management;
- identifying the key stakeholder groups and recognising that their perceptions affect the Company's reputation;
- setting the Company's values and standards (including ethical standards), and ensuring that obligations to Shareholders and other stakeholders are understood and met; and
- considering sustainability issues, e.g. environmental and social factors, as part of its strategic formulation.

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

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

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

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

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

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

2. Composition of the Board

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

Executive Director

Mr. Tu *(Chairman)*

Non-executive Directors

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

Independent Non-executive Directors

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

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

For the year ended December 31, 2021, the Board had complied with Rules 3.10(1) and 3.10(2) of the Listing Rules regarding the appointment of at least three independent non-executive Directors, and at least one of the independent non-executive Directors must have appropriate professional qualifications or accounting or related financial management expertise. Three independent non-executive Directors represent one-third of the Board, which is compliant with the requirement of Rule 3.10A of the Listing Rules that an issuer must appoint independent non-executive directors representing at least one-third of the board. The Board believes that the composition of the members of the Board provides sufficient independence to safeguard the interests of the Shareholders.

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

3. Appointment, Re-election and Retirement of Directors

Each of the Directors (including non-executive Directors) has entered into service contract/letter of appointment with the Company, each for a term of three years commencing from the Listing Date, subject to retirement by rotation in accordance with the Articles of Association of the Company.

Article 109(a) of the Articles of Association of the Company provides that at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at an annual general meeting at least once every three years. Article 109(b) of the Articles of Association provides that the Directors to retire by rotation shall include (so far as necessary to obtain the number required) any Director who wishes to retire and not to offer himself for re-election. Any Director who has not been subject to retirement by rotation in the three years preceding the annual general meeting shall retire by rotation at such annual general meeting. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. Also, Article 113 of the Articles of Association provides that any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

4. Induction Guidance and Continuous Development of Directors

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

For the year ended December 31, 2021, all Directors have received the training sessions organized by the Company. The training sessions covered the continuity obligation of a listed company and its directors, the disclosure obligation of a listed company and updates of the Listing Rules.

According to the records provided by the Directors, the training attended by all the Directors for the year ended December 31, 2021 is summarized as follows:

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

Notes:

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

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

5. Attendance Records of the Board Meetings and General Meetings

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

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

Code provision C.2.7 of the CG Code provides that the Chairman should at least annually hold a meeting with the independent non-executive Directors without the presence of other Directors. As the Company was only listed on the Stock Exchange on December 10, 2021, which is less than one month away from December 31, 2021, the Chairman did not hold any meeting with the independent non-executive Directors since the Listing Date and up to December 31, 2021.

Code provision C.5.1 of the CG Code provides that Board meetings should be held at least four times a year at approximately quarterly intervals. As the Company was only listed on the Stock Exchange on December 10, 2021, which is less than one month away from December 31, 2021, no Board meeting and general meeting has been held by the Company since the Listing Date and up to December 31, 2021.

6. Chairman of the Board and Chief Executive Officer

Code provision C.2.1 of the CG Code states that the roles of chairman of the board and chief executive should be separate and should not be performed by the same individual.

Mr. Tu is currently serving as the chairman of the Board as well as the chief executive officer of our Company. As Mr. Tu is the founder of our Group and has been managing our Group's business and overall strategic planning since its establishment. The Directors consider that vesting the roles of chairman and chief executive officer in Mr. Tu is beneficial to the business prospects and management of our Group by ensuring consistent leadership within our Group. The Board therefore considers it is appropriate to deviate from code provision C.2.1 of the CG Code in such circumstances. The Board will continue to review and consider splitting the roles of chairman of our Board and the chief executive officer of the Company at an appropriate time if necessary, taking into account the circumstances of our Group as a whole. Notwithstanding the foregoing, the Board considers that the management structure is effective for the operation of the Group and those adequate checks and balances have been put in place.

BOARD COMMITTEES

1. Audit Committee

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

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

Code provision D.3.3(e)(i) of the CG Code provides that members of the Audit Committee should liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's auditors. As the Company was only listed on the Stock Exchange on December 10, 2021, which is less than one month away from December 31, 2021, no meeting was held by the Audit Committee since the Listing Date and up to December 31, 2021.

Two Audit Committee meetings were held on January 6, 2022 and March 30, 2022 to review/consider the appointment of the auditor, the consolidated annual financial statement of the Group for the year ended December 31, 2021 and the opinion and report of independent auditor, the independence and audit scope of independent auditor, and to review and discuss the risk management and internal control system and financial reporting matters of the Group, the effectiveness of the Group internal audit and risk control function.

2. Remuneration Committee

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

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

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

Code provision E.1.2 of the CG Code and the terms of reference of the Remuneration Committee provide that the Remuneration Committee should make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy at least annually. As (i) there has been discussion among the Directors on the relevant matters prior to the Listing Date; and (ii) the Company was only listed on the Stock Exchange on December 10, 2021, which is less than one month away from December 31, 2021, there was no meeting convened by the Remuneration Committee since the Listing Date and up to December 31, 2021.

The Remuneration Committee held one meeting on March 30, 2022 to review the remuneration policy and structure of the Directors and senior management and make recommendations to the Board on the remuneration of the Directors and senior management for 2022.

3. Nomination Committee

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

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

Code provision B.3.1 of the CG Code and the terms of reference of the Nomination Committee provide that the Nomination Committee should review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. As (i) there has been discussion among the Directors on the relevant matters prior to the Listing Date; and (ii) the Company was only listed on the Stock Exchange on December 10, 2021, which is less than one month away from December 31, 2021, there was no meeting convened by the Nomination Committee since the Listing Date and up to December 31, 2021.

The Nomination Committee held one meeting on March 30, 2022 to review the composition of the Board and its committees as well as the background and experiences of the Board members, evaluate the contributions of the Board members to the Board diversity, make recommendation to the Board on the re-appointment of Directors, evaluate the independence of independent non-executive Directors, and review the board diversity policy and the nomination policy.

Nomination Policy

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

BOARD DIVERSITY POLICY

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

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

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

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

DIVIDEND POLICY

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

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

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

CORPORATE GOVERNANCE FUNCTIONS

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

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

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

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

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

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

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

As (i) there has been discussion among the Directors on the relevant matters prior to the Listing Date; and (ii) the Company was only listed on the Stock Exchange on December 10, 2021, which is less than one month away from December 31, 2021, there was no meeting convened by the Board since the Listing Date and up to December 31, 2021 for the purpose of code provision A.2.1 of the CG Code.

The Board held one meeting on March 30, 2022 to review the Company's compliance with the CG Code, the Model Code and the disclosure requirements in the Corporate Governance Report during the Relevant Period.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

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

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

All the executive Directors and non-executive Directors do not receive Directors' fees. In considering the remuneration packages for the executive Directors and non-executive Directors, the Remuneration Committee will take into account factors such as frequency of meetings, effort and time spent as well as responsibilities. The remuneration of the Directors comprises a basic salary and variable components which include an annual bonus, based on the performance of the Group as a whole and their individual performance. None of the Directors waived or agreed to waive any remuneration and there were no emoluments paid by the Group to any of the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

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

The remuneration payable to the senior management (excluding Directors) of the Company for the year ended December 31, 2021 is set out in the following table by band:

Bands	Number of individuals
Nil to HK$1,000,000	–
HK$1,000,001 to HK$1,500,000	–
HK$1,500,001 to HK$2,000,000	–
HK$3,000,001 to HK$3,500,000	–
HK$4,500,001 to HK$5,000,000	1
HK$5,000,001 to HK$5,500,000	1
HK$5,500,001 to HK$6,000,000	1
HK$59,500,001 to HK$60,000,000	1
	4

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

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the Company's financial statements for the year ended December 31, 2021.

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

In preparing the financial statements for the year ended December 31, 2021, the Board reviewed and selected the appropriate accounting policies, and ensured that the management had applied them consistently and prepared the financial statements on a going concern basis. The Board reviews compliance issues with the management as and when required.

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

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

The statement of the independent auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 140 to 146 of this annual report.

AUDITOR'S REMUNERATION

For the year ended December 31, 2021, the remuneration paid and payable to the Company's external auditors, Ernst & Young, is set out below:

Type of Service	RMB'000
Listing-related audit service*	5,843
Annual audit services	3,300
Non-audit services**	770

* The auditor's remuneration regarding listing related audit service of RMB 5,247,000 was included in the listing expenses for the year ended 31 December 2021, and rest of the auditor's remuneration regarding listing related audit service of RMB 596,000 was recognised directly as a deduction in equity upon Listing.

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

The statement of the external auditor of the Company about their reporting responsibilities for the consolidated financial statements is set out in the "Independent Auditor's Report" on pages 140 to 146 of this annual report.

JOINT COMPANY SECRETARIES

Ms. Xie Xiaoping and Ms. Lau Jeanie are the joint company secretaries of the Company. Ms. Lau Jeanie is an assistant vice-president of corporate secretarial department of SWCS Corporate Services Group (Hong Kong) Limited and is not an employee of the Company. The current primary contact person of the Company with Ms. Lau Jeanie is Ms. Xie Xiaoping.

In compliance with Rule 3.29 of the Listing Rules, each of Ms. Xie Xiaoping and Ms. Lau Jeanie has undertaken no less than 15 hours of relevant professional training for the year ended December 31, 2021.

The biographical details of the joint company secretaries are set out in the section headed "Directors and Senior Management" of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

The Group has established an internal audit function. The internal auditor of the Company has carried out an analysis and independent appraisal of the adequacy and effectiveness of the risk management and internal control systems of the Group for the year ended December 31, 2021.

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

- Risk identification: identify potential risks.
- Risk assessment and prioritisation: assess the risks in terms of impact and vulnerability.
- Risk response and monitoring: consider the risk responses and monitor the effectiveness of the remediation plan on a periodic basis.

The Board has reviewed the effectiveness of the risk management and internal control system of the Group for the year ended December 31, 2021 and the Board assesses that the Group's risk management and internal control system is effective and adequate. The review covered all material controls, including financial, operational and compliance controls and risk management functions. In particular, the Board considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions to be adequate. The review was conducted through discussions with the management of the Company, its external and internal auditors and the assessment performed by the Audit Committee. The Board also made reference to the results of the agreed-upon procedures in connection with the internal control of the Company performed by the internal control consultant engaged by the Company in preparation for the Listing, and these procedures did not identify any material internal control deficiencies of the Group.

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

Risk Management System

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

- *Identification:* Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.
- *Evaluation:* Analyse the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- *Management:* Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

Based on the risk assessment review for the year ended December 31, 2021, no significant risk was identified.

Internal Control System

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

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

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

The components of the framework are shown as follows:

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

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

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

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

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

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

Based on the internal control reviews for the year ended December 31, 2021, no significant control deficiency was identified.

The Board is responsible for the risk management and internal control systems of the Group and ensuring review of the effectiveness of these systems has been conducted at least annually. Several areas have been considered during the Board's review, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment; (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems. Such a review shall be conducted annually. Upon the recommendation of the Audit Committee, the Board was of the view that the risk management system and internal control system for the year ended December 31, 2021 were adequate and effective. In addition, upon a review on the internal audit function of the Group, the Board was of the view that the internal audit function of the Group remained effective during year ended December 31, 2021.

WHISTLE-BLOWING POLICY

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

RIGHTS OF SHAREHOLDERS

Communication with Shareholders and Investors

The Company is committed to pursue active dialogue with Shareholders as well as to provide timely disclosure of information concerning the Company's material developments to its Shareholders, investors and other stakeholders.

An annual general meeting of the Company shall be called by at least 21 days' (and not less than 20 clear business days') notice in writing, and a general meeting of the Company, other than an annual general meeting, shall be called by at least 14 days' (and not less than 10 clear business days') notice in writing.

As one of the measures to safeguard the Shareholders' interests and rights, separate resolutions will be proposed at general meetings on each substantial issue, including the election of individual Directors, for Shareholders' consideration and voting. In addition, the Company regards annual general meeting as an important event, and all Directors, the chairmen of all Board Committees, senior management and external auditor will attend the annual general meeting of the Company to address Shareholders' inquiries. If the chairmen of the Board or each Board Committee fail to attend the meeting, then other members of each Board Committee will be invited to attend the annual general meeting and answer Shareholders' inquiries thereat. All resolutions proposed at general meetings will be voted by poll. The voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.gstzy.cn) on the same day of the relevant general meetings.

To promote effective communication, the Company maintains a website (www.gstzy.cn), where the latest information and updates on its business operation and development, corporate governance practice, contact information of investor relations and other information are published for the public's access.

Convening an Extraordinary General Meeting and Putting Forward Proposals by Shareholders

In accordance with Article 64 of the Articles of Association of the Company, the Board may, whenever it thinks fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, as at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

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

Pursuant to Article 114 of the Articles of Association, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director signed by a Shareholder and notice in writing signed by that person of his willingness to be elected shall have been lodged at the Head Office or at the Registration Office. The period for lodgement of the notices required under the Article of Association will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the investor relations of which contact details are as follows:

Address: Room 102, Building 1, No. 138, Shiyu Road, Nansha District, Guangzhou City, the PRC

Email: ir@360gst.com

CONSTITUTIONAL DOCUMENTS

Except that the Memorandum and Articles of Association have been amended and restated with effect from the Listing Date, there has not been any change in the Memorandum and Articles of Association since the Listing Date and up to December 31, 2021.

1 ABOUT THIS REPORT

This report is the first Environmental, Social and Governance (the "**ESG**") Report ("**ESG Report**") issued by GUSHENGTANG HOLDINGS LIMITED. Adhering to the principles of materiality, quantification, balance and consistency, this ESG Report focuses on the disclosure of the Company's ESG performance from 1 January 2021 to 31 December 2021 (the "**Reporting Period**").

Basis of Preparation

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

Reporting Boundary and Sources of Information

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

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

Confirmation and Approval

This report was reviewed and confirmed by the Board on March 30, 2022, and was approved for publication.

Access to the Report

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

Feedback

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

Email: ir@360gst.com

2 RESPONSIBLE OPERATION, JOIN HANDS TO PERFECT OUR OPERATION THAT IS ALREADY OUTSTANDING

Gushengtang has always adhered to comprehensive and balanced sustainable development, actively assumed corporate responsibility and attached importance to the Company's ESG management. We continue to improve our ESG governance structure, establish our ESG governance policy and strategy, maintain timely communication and response with stakeholders, and strive to build a solid foundation for sustainable corporate development.

2.1 Board Statement

Gushengtang attaches great importance to ESG management and strictly complies with the requirements of the ESG Reporting Guide, establishing an effective ESG management mechanism, and continuously improves the ESG governance structure and management mechanism. Strengthen the Board's oversight and involvement in the Group's ESG matters.

ESG Governance Structure: The Board is responsible for formulating the Group's ESG management policies and strategies, and assumes ultimate responsibility for the Group's ESG work. The ESG Management Committee has been established by the Company to assist the Board in overseeing and monitoring the implementation of relevant ESG policies and measures, and to report regularly to the Board. In 2021, the Board mainly managed the Group's ESG-related matters in the following aspects:

ESG risk management: The Board actively participates in the communication with stakeholders, evaluates, analyzes and prioritizes the importance of ESG issues, identifies ESG-related issues that have a significant impact on the Group's operations and/or the interests of other important stakeholders, and clarifies the focus and direction of ESG risk management. In addition, the Board holds regular management team meetings to discuss the latest development of relevant laws and regulations, so as to better identify ESG risks in the operation process and formulate effective measures in a timely manner.

Goal setting and progress review: The Board recognises the importance of sustainable development and has set important ESG performance indicator based on the Group's business characteristics and formulated corresponding implementation measures to ensure the achievement of the targets, and regularly reviewed the progress in achieving ESG targets.

Review of the results of ESG work: The Board regularly reviews the results of the Group's ESG work and gives suggestions for improvement; The Boarded listened to and reviewed and confirmed the ESG Report of the Company.

2.2 ESG Governance

2.2.1 ESG Governance Structure

To further support the Board in ESG governance, we have set up an ESG management committee, consisting of Mr. Tu, an executive Director and the CEO, as the chairman of the ESG management committee and in charge of ESG management, as well as two other members. The ESG management committee will assist the Board in supervising and monitoring the implementation of relevant ESG policies and measures, and report to the Board on a regular basis.

2.2.2 ESG Governance Policy and Strategy

Gushengtang has formulated a sustainable development vision and strategy that is consistent with the Group's business characteristics and in line with the Group's overall development strategy, so as to direct the Group's ESG efforts. The Board participates in the identification, prioritisation and management of key ESG issues of the Group, and reviews the identification, assessment process and analysis of the results of the Group's ESG materiality issues, climate change risks and opportunities, as well as the impact analysis undertaken and the response strategies developed.

— Our vision: To make traditional Chinese medicine a part of mainstream medical science in the world

— Our mission: To build China's largest new traditional Chinese medicine big health management ecosystem
To empower traditional Chinese medicine the wings of internet and artificial intelligence and soar to the world!

— Our motto: Health care with conscience, medicine with confidence

— Our values: Service first
Strugglers based
Result oriented

— Our goal: To be the first choice of traditional Chinese medical services for the people

2.3 Communication with Stakeholders

Gushengtang attaches great importance to listening to the voices of stakeholders and maintains close communication with stakeholders (including Directors, management, employees, customers/consumers, investors/shareholders/analysts, suppliers, government and regulatory authorities, media, industry associations/professional institutions, etc.) through publishing reports, opinion surveys or other platforms and other ways of communication to understand their concerns and issues, respond to their concerns and demands, and achieve common development.

Stakeholders	Communication methods	Key concerns
Employees	Staff meetings Employee email Staff interview Employee activities Staff training Online opinion survey	Improving occupational training mechanism Competitive compensation package Safeguarding occupational health and safety Equal and inclusive corporate culture
Customers/Consumers	Online customer service WeChat official account Customer service hotline Official website Customer satisfaction survey Customer interview	Assuring quality and safety of medical services and products Protecting customers' rights and interests Protecting customer information and privacy Ensuring compliant and responsible marketing
Investors/Shareholders/Analysts	Shareholders' meetings Financial Reports Official website Analyst briefing Public Reports	Maintaining stable investment return Enhancing the Company's commercial value Protecting shareholder interests Achieving corporate information transparency Strengthening ESG governance

Stakeholders	Communication methods	Key concerns
Suppliers	Direct communication and visits Online surveys Supplier meetings Bidding activities Review and assessment	Contract performance according to law Improving the supplier access and evaluation mechanism Building a responsible supply chain Practicing integrity operation
Government and regulatory authorities	Regular visits Policy communication Organising or attending meetings Public events	Compliance operation Paying taxes in full and on time Response to national policies Supporting local economic development
Media	Media conferences Media interviews Media visits	Improving corporate transparency Fulfilling corporate social responsibility
Industry associations/ professional institutions	Industry events Visits and surveys Online opinion surveys	Promoting industry development Fulfilling corporate social responsibility

2.4 Material Issues

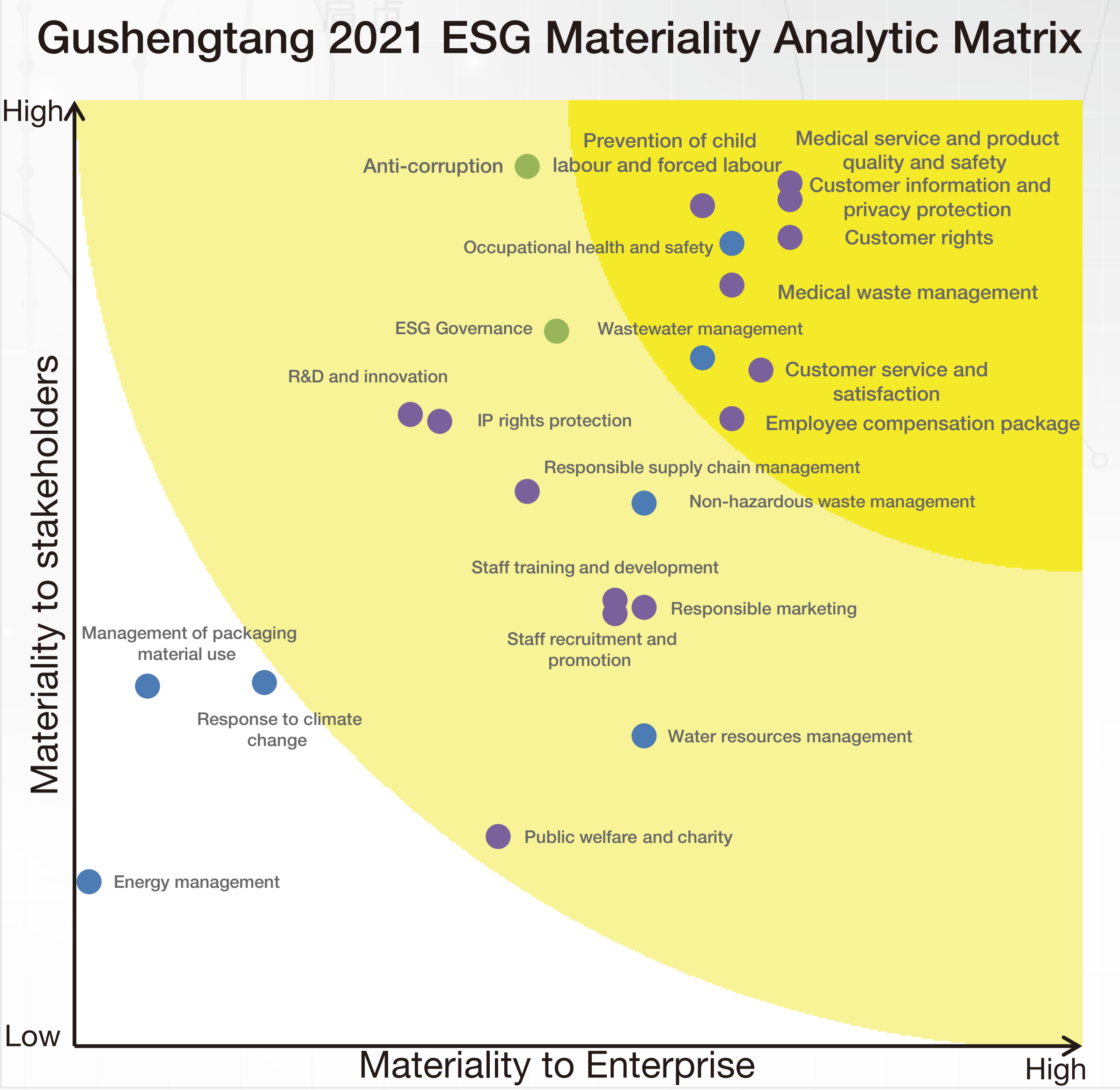
We engaged external professional consultants to jointly assess the material ESG issues of the year, summarised the list of material ESG issues of the Company for 2021 based on business and operation conditions of the year and with reference to the ESG management practices of peer companies, and understood the opinions and suggestions of stakeholders on material issues of the Company's ESG through questionnaire surveys and other means, and formed a materiality matrix based on the priority of relevant issues according to the results of our surveys to provide guidance for the Group to carry out ESG work.

2.4.1 Materiality Analysis Process

Setting up factors bank	Set up 2021 ESG issue bank consisting of 23 factors based on the ESG Reporting Guidance, by reference to the Global Reporting Initiative and taking into account our business conditions in 2021 and concerns of stakeholders as well as ESG management practices of peers.
Stakeholder involvement	Get primary data from stakeholders through a questionnaire survey, covering Directors, management, employees, customers/consumers, investors/shareholders/analysts, suppliers, government and regulatory authorities, media, industry associations/professional institutions. A total of 231 valid questionnaires were collected.
Factors Assessment	Based on factors of concerns of stakeholders, derive the ESG issue “materiality matrix” from two dimension, “materiality to the enterpriser and materiality to stakeholders”. 9 factors of high importance, 11 factors of moderate importance and 3 factors of general importance were included.
Approval and Confirmation	Submit stakeholder involvement and materiality assessment results to management for approval and if approved, for highlighted disclosure in the report.

2.4.2 Material Issues

By analyzing the survey results of stakeholders, the materiality matrix of Gushengtang ESG factors in 2021 is derived:



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

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

2.5 Anti-corruption

Gushengtang attaches great importance to integrity and anti-corruption, and has established a sound internal control system. In strict compliance with the *Anti-Unfair Competition Law of the People's Republic of China*, the *Anti-Money Laundering Law of the People's Republic of China*, the *Bidding Law of the People's Republic of China*, the *Foreign Corrupt Practices Law and other laws and regulations*, the Company has formulated internal rules such as the Gushengtang Group Business Integrity Management Measures and the Anti-fraud and Reporting Rules to clarify the anti-corruption management mechanism of the Company in terms of accountability for integrity, prevention and control methods, reporting, investigation and punishment measures.

During the Reporting Period, no litigation cases due to corruption or corruption occurred in Gushengtang.

Integrity and Self-discipline

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

Gushengtang attaches great importance to the training and publicity of integrity culture, with an aim to continuously improve employees' awareness of integrity and self-discipline, and establish a correct moral orientation for employees. During the year, the Company's Directors and employees received a total of 3,544 hours of anti-corruption training, including 18 hours of training for Directors and 3,526 hours of training for employees.

Case: Integrity Training for Staff

In August 2021, Gushengtang organised an integrity training on anti-corruption and bribery for its staff to clarify the definition and scope of corruption and bribery. This training raised staff's awareness of integrity and anti-corruption, and served as a good promotion to restrain and regulate their business behaviour.

Live for Integrity Training

Whistle-blowing Management

Gushengtang has various whistle-blowing channels. Internal staff or external personnel are encouraged to actively report disciplinary offences and participate in building integrity via means of whistle-blowing telephone, email or letters.

In order to protect the legitimate rights and interests of the whistle-blowers, Gushengtang stipulates that the personnel receiving the complaints shall not disclose any whistle-blower's data and complaint to any department or individual without authorization. We will dismiss the person who divulges the whistle-blower's information or retaliate against the whistle-blower in violation of regulations, terminate the employment contract, and those who violate the law will be transferred to the judicial authorities for handling. Gushengtang rewards employees who have made significant contributions through whistle-blowing, and encourages employees to protect the Company's interests.

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

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

The Whistle-blowing Management Process of Gushengtang

3 MEDICAL SERVICE WITH CONSCIENCE, JOIN HANDS FOR QUALITY WITH PEACE OF MIND

Gushengtang adheres to the motto of "Health care with conscience, medicine with confidence", and strictly abides by the *Drug Administration Law of the People's Republic of China*, the *Pharmacopoeia of the People's Republic of China*, the *Good Supply Practice for Pharmaceutical Products*, the *Regulations on the Supervision and Administration of Medical Devices*, the *Product Quality Law of the People's Republic of China*, the *Advertisement Law of the People's Republic of China* and other relevant laws and regulations. It has formulated and implemented internal rules such as the Quality Standards, the *Quality Information Management Rules*, the *Drug Purchase Management Rules*, the *Drug Receipt and Acceptance Management Rules*, the *Drug Custody*, *Maintenance*, and *Ex-warehouse Review Management Rules*, the *Drug Transportation Management Rules*, the *Management Rules for Compound Preparations with Special Drugs*, the *Management Rules for Near-expiry Drugs*, and the *Adverse Drug Reaction Reporting Management Rules*, so as to strictly control the purchase, inspection, sales and after-sales process of drugs, proving customers with more premium products.

Guangzhou Blue Ocean Pharmaceutical Co., Ltd., a subsidiary of our Company, has obtained the Pharmaceutical Operation Permit, the Food Operation Permit and the Class II Medical Device Filing Certificate.

3.1 Confidence in product quality

3.1.1 Quality Management System

Management Structure

We have set up a quality management structure and set up various departments to carry out and implement quality management work and strictly control product quality.

Management Team	Duties
Person-in-charge	The chief decision-maker, who is responsible for determining the Company's quality policies and objectives, is the highest decision-maker in formulating the Company's various rules and regulations.
Quality steering group	Establish the Company's quality system, implement the Company's quality policy, and ensure that the Company's quality control staff exercise their functions and powers.
Person in charge of quality	Review the Company's quality control system and work procedures, guide and supervise the implementation of quality control related work.

Quality Risk Control

Gushengtang attaches great importance to quality risk control, and has formulated the *Quality Control System for Pharmaceutical Operation Risks* in accordance with relevant laws and regulations, which clarifies risk management activities required to be carried out in all aspects from procurement to after-sales, and integrates quality risk control into the whole process of the Company's operation. Gushengtang assesses, controls, communicates and reviews the quality risks in the drug circulation process through pre-risk assessment or regular risk summary every year, and actively identifies potential risks in the drug operation process and takes corresponding measures to ensure quality and safety in the whole process and in all aspects.

In order to strengthen the supervision of drug safety and ensure the safety of public use of drugs, we have set up an inspection team for incoming goods, which consists of experienced professors of traditional Chinese medicine identification and dedicated maintenance staff who are responsible for the management of drug acceptance and storage. In addition, pharmacy personnel will re-inspect the quality of drugs to prevent unqualified drugs from flowing to the market.

In addition, in order to further improve quality control, Gushengtang has established a pharmaceutical management committee, which formulates quality compliance inspection standards and regularly evaluates medical institutions under the Group.

Quality Culture Building

In order to strengthen the development of quality culture and improve the quality management level, we carry out monthly quality training, such as "training on management of near-expiry drugs and unqualified drugs", "guiding principles for the identification of non-compliance of TCM decoction pieces with drug standards not affecting safety and effectiveness", "quality evaluation of TCM decoction pieces — judgment of good TCM", and "training on drug maintenance operation specifications and related compliance operation" for the pharmacy line, covering multiple aspects such as drug inspection and acceptance, drug management, drug maintenance and warehouse management.

Product Recall Management

Gushengtang attaches great importance to the management of adverse events. In order to standardize the management of product recall, we have formulated the Drug Recall Management rules and standardized the work process of drug recall. The drug management rules cover quality incident management, drug recall, destruction of unqualified drugs and adverse drug reaction report, which covers the whole process of drug operation and effectively prevents the occurrence of major quality incidents. We classify recall procedures into three levels according to the hazards and urgency of the incident, with different levels corresponding to different response time and disposal measures.

- Level 1 recall: The drug may cause serious health hazards and will be recalled within 24 hours;
- Level 2 recall: If drug may cause temporary or reversible health hazards and will be recalled within 48 hours;
- Level 3 recall: The drug generally does not cause health hazards, but will be recalled within 72 hours due to other reasons.

During the Reporting Period, the Company did not have any material recall due to product quality issues.

3.1.2 R&D and Innovation

Gushengtang gave full play to its own unique advantages, focused on clinical efficacy, attached importance to the comprehensive effect of TCM formula combination, and explored a new idea and new method for the R&D of TCM preparation products suitable for the Company. In order to strengthen its independent R&D and production capacity, Gushengtang has established a medical institution preparation center and established cooperative relationship with the Guangdong-Macao Cooperative Traditional Chinese Medicine Technology Industrial Park to improve the Company's R&D and production capacity and promote high-quality development of medical institutions' preparations.

Case: Gushengtang cooperated with Guangdong-Macao Cooperative Traditional Chinese Medicine Technology Industrial Park to assist in the research and development of traditional Chinese medicine

On December 10, 2021, Gushengtang entered into a cooperation agreement with Guangdong-Macao Cooperative Traditional Chinese Medicine Technology Industrial Park to establish a cooperative relationship in various aspects such as Chinese drug preparations, innovative drug research and development, and clinical application data collection in medical institutions. Relying on its own platform advantages, Gushengtang promotes the integration of industry, university and research, the industrialization and modernization of traditional Chinese medicine, and facilitates the inheritance and innovation of traditional Chinese medicine.

Cooperation between Gushengtang and Guangdong-Macao Cooperative Traditional Chinese Medicine Technology Industrial Park

3.1.3 Intellectual Property Protection

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

Gushengtang takes a series of measures to protect its intellectual property, creating a business environment featuring integrity and compliance:

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

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

During the Reporting Period, no infringement of intellectual property rights occurred in Gushengtang.

3.2 Medical Services with Peace of Mind

Gushengtang is committed to providing customers with worry-free, reassuring and comfortable medical services, improving the Group's customer service system and management model, and safeguarding the security of customers' personal information and privacy. We actively implement responsible marketing efforts and assume the Group's responsibility in compliant marketing.

3.2.1 Customer Service Management

Gushengtang always adheres to the corporate value of "service first" and constantly improves the service system. We have formulated internal management rules such as the *Customer Service Manual* and the *Customer Complaint Handling Process* to ensure rapid response to all kinds of appointments, consultations, suggestions and complaints before/after customer visits, as well as to ensure subsequent follow-up feedback and optimization, and record the results.

Customer Service

We proposed a new "online + offline" medical service model, actively explored a new "Internet + TCM" service model, and cooperated with many online platforms and public medical institutions to address the "last-kilometer" issue of medical treatment, helping to improve the accessibility of traditional Chinese medical services. In order to better promote the "online + offline" integrated services and remote medical services, we created the "OMO" new TCM platform to respond to customer needs in a timely manner through information technology, and promote the improvement of grassroots medical service level.

In 2021, the online customer service of Gushengtang served a total of 54,250 people, and WeChat official account provided consultation service for 39,074 people, with an average response time of 5 minutes and a response rate of 100%.

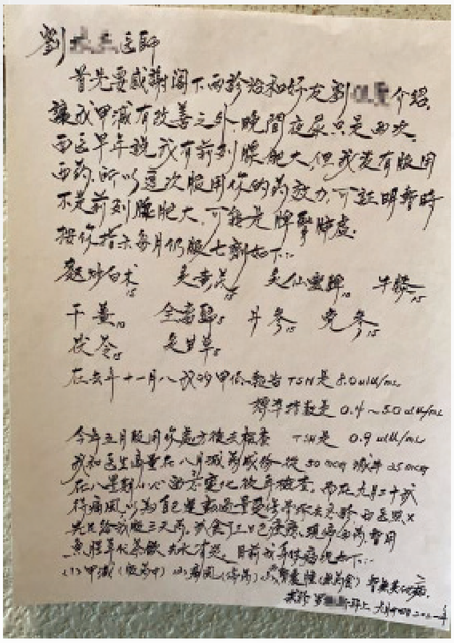
Case: Off-line Medical Services

In 2021, a number of doctors at Gushengtang's offline outlets were highly skilled in providing quality medical services to patients with remarkable treatment results. Patients who have benefited from the services have expressed their recognition of their high medical ethics and exquisite medical skills and sent banners to them, demonstrating a heartwarming doctor-patient relationship.

Patients present a banner to TCM physicians at Gushengtang

Case: Online Medical Services

Doctor Liu of Gushengtang Wushan Branch treated Mr. Luo, a Chinese American, through a video consultation. After the video consultation, Director Liu diagnosed Mr. Liu's condition as a deficiency of the spleen, kidney and lung, and provided him with treatment and guidance. Mr. Luo's health improved significantly after the treatment and he wrote a handwritten thank-you letter to express his gratitude for Doctor Liu's medical skills.



A handwritten thank-you letter from a patient to Gushengtang doctor

Complains Handling

Gushengtang has formulated the *Customer Complains Handling Process* to provide smooth complaint channels such as 400 hotline, WeChat official account and third-party channels. We classify complaint cases based on specific situation (from level 5 to level 1, the severity of which increases gradually), and escalate customer complaints that remain unresolved beyond the time limit to resolve customer demands in the shortest time possible. In 2021, Gushengtang received a total of 48 customer complains, all of which were responded to within 30 minutes and closed within 24 hours, with complaint closing rate of 100%.

Gushengtang pays attention to customer satisfaction and understands the opinions and suggestions of customers on our services by automatically pushing satisfaction surveys through the system. During the year, more than 410 thousand people participated in the satisfaction evaluation, and the satisfaction rate of was 97.02%. We have addressed customer feedback, such as long waiting time for consultation/medicine, to further optimize our service quality.

3.2.2 Customer Information and Privacy Protection

Gushengtang strictly abides by the *Data Security Law of the People's Republic of China*, the *Personal Information Protection Law of the People's Republic of China* and other laws and regulations, and has formulated internal management rules such as the *System Data Security Management Rules*, the *User Data Protection Management Rules*, the *Cyber Security Management Rules*, and the *Cyber Information Security Complaints and Whistle-blowing Rules* to standardize the information management system, work systems and processes, technical prevention and other work, and effectively protect legitimate rights and interests of customers and the Company in information security.

Relevant rules	Main contents
Gushengtang Group Data Classification and Confidentiality Management Rules	Sort out the importance and sensitivity of information, assess possible risks of information leakage, classify the information and take corresponding security management measures
Management Rules for Employee Identity and Access	Control the access to business system and clarify the departments accountable for access management
Cyber and Information Security Emergency Plan	Standardize response to personal information security emergencies and emergency response to information security incidents

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

Employees

- Enter into *NDA*, providing for data protection and confidentiality obligations;
- Organize regular trainings for employees;
- Encrypt data transmitted, do not transmit key data unless necessary.

Customers

- Indicate the purpose, application and method of collecting sensitive personal data before doing so.

Suppliers

- Provide for data protection obligations and default liabilities.

In addition, in order to further improve the information system protection system, Gushengtang carried out internal and external review of information security. The information management department of Gushengtang is responsible for conducting regular risk assessment on information assets to reduce the Company's information security risks. We engaged a third party to conduct a comprehensive compliance review on the Company's data compliance, cyber security and personal information protection. During the year, the Company's main network facilities and "Gushengtang Cloud HIS Information System" have filed for the security level protection of the third-level information system, and carried out the 2021 level protection evaluation to build a security defense line for customer privacy protection.

3.2.3 Responsible Marketing

In order to implement responsible marketing, we have formulated a multi-dimensional marketing system covering marketing budget, bidding work, marketing information, asset security, marketing event management, channel management, etc., to continuously improve the Company's responsible marketing system. At the same time, we have set up a special medical insurance compliance committee to jointly develop a medical insurance intelligent platform with the IT technology department. Through the combination of marketing system and IT system, the Company strictly restrains the marketing behavior of relevant employees, requires them to perform their duties of compliance marketing, and continuously improves the Company's responsible marketing management level.

Case: Compliance Training for Medical Advertisement and Publicity

In October 2021, Gushengtang invited the section chief of the market supervision section and the section chief of the advertising supervision section of Baoshan District, Shanghai to explain medical advertising and promotion activities regarded as violations in the Advertising Law, and explain storage conditions and sorting specifications of drugs. The training was conducted through offline meetings and online live streaming, covering nearly 200 employees in each business line of the Company, which greatly improved employees' awareness of responsible marketing.

Compliance Training for Medical Advertisement and Publicity

4 TALENTS FIRST AND WORKING TOGETHER FOR A COMMON PURPOSE

Gushengtang has always attached great importance to the development of employees, and expects to create a fair, just, safe and healthy working environment through equal employment, professional cultivation, close attention and care, establish a multi-channel career development path, implement a sound performance incentive system, organize diversified caring activities, and work together with employees to make progress together.

4.1 Diversified and Equal Employment

In compliance with the *Labor Law of the People's Republic of China*, the *Labor Contract Law of the People's Republic of China*, the *Employment Promotion Law of the People's Republic of China*, the *Law of the People's Republic of China* on the Protection of Minors and other relevant laws and regulations, Gushengtang has formulated internal rules such as the *Recruitment Management Rules*, the *Labor Contract Management Rules*, the *Confidentiality Management Measures of Gushengtang*, the *Performance Management Incentive Rules*, the *Employee Welfare Management Rules*, and the *Business Integrity Management Rules of Gushengtang*, prohibit child labour and forced labour and guaranteeing diversity and equality of employment.

We follow the principle of "open recruitment and fair selection" and are committed to promoting gender diversity and continuously optimising the structure of our workforce to achieve a reasonable distribution of employees by gender, age and region. We adhere to the employment policy of equality and non-discrimination, encouraging a diverse and inclusive corporate culture, and treat employees of different nationalities, races, genders, religious beliefs and cultural backgrounds in a fair and equitable manner, strive to create a diversified and inclusive workplace environment. We resolutely eliminate the use of child labor and forced labor, during the recruitment process, we will collect and strictly check the identification documents of candidates through background investigation, and reject candidates under the legal age at the beginning of the interview, and refuse to hire employees under the legal age when they are employed. If any use of child labour is found, timely measures will be taken to cease employment and the same will be reported to competent authorities.

As of 31 December 2021, Gushengtang had a total number of 1,661 employees, of which 70.68% were female employees. We fully protect the legal rights and interests of our employees, comply with and enforce working hours that meet the requirements of relevant laws and regulations, ensure statutory holidays for employees, and pay overtime wages in accordance with relevant laws and regulations.

4.2 Democratic Communication

Gushengtang attaches great importance to communication with employees, sets up diversified communication channels, encourages employees to make their voices and listen carefully to their valuable opinions and suggestions, and gives timely feedback.

— Open day activities: The president/regional director open day activity is held every month. All departments select relevant basic level employees to participate in the open day, so that basic level employees can understand the Company's plan and report actual problems at the same time;

— Regular communication meetings: Communication meetings with senior management are held quarterly to promote communication and harmony among senior management, and between senior management and the president.

— Functional department satisfaction survey: During the Reporting Period, we conducted satisfaction surveys against 16 departments. The satisfaction evaluation is carried out for each department from five dimensions: professionalism, timeliness of service response, service effectiveness, overall service attitude, and the ability of continuous improvement.

4.3 Multi-dimensional training and development

4.3.1 Talent Training

- Gushengtang has established a comprehensive employee training system to provide targeted skill improvement training according to the difference between employees' ability level and the needs of their positions. The Company has formulated the Training Management Rules of Gushengtang, set up annual/quarterly training plans for employees at different ranks and positions, and further strengthened employees' development skills through diversified training modes and various training courses. For new employees, the Company has formulated courseware or courses such as *Gushengtang Orientation Strategy, Little Gu Navigator Instrument, Gushengtang Publicity Video, In the next 3-5 years, it will become the first choice for doctors and patients, Gushengtang, a new star of the rise of grassroots traditional Chinese medicine*, and *Building Huangpu Military Academy for Traditional Chinese Medicine*, so that new employees can quickly get on-board;

- For core medical personnel: We have established the medical (sales) committee to carry out core medical personnel training camp project, systematically, modularized and structured practical experience of the medical line, and gradually built the medical training system. With the joint efforts of core personnel, we will jointly promote business innovation and progress in key tasks;

- For employees of the store operation line, adhering to the business philosophy of focusing on experts and customers, we have established an operation committee to continuously empower employees of stores;

- For core executives: We have provided an EMBA program;

At the same time, we also develop training courses for different professional skills based on different business needs, and further improve employees’ business skills through training:

- Regularly carried out online and offline training on skills of multiple business functions such as pharmacy, charging, nursing and medical assistance;

- Developed more than 20 training courses such as *Pharmacy Dispensations, Drug Issuing in Pharmacies, Er Xue Ya Dou, Acupuncture Point Plastering, Traditional Chinese Medicine Debate* and *TCM Foundation*;

- Organised skill competitions on a regular basis to drive skill training through the apprenticeship system, so that employees can receive rewards and develop in the course of learning and practice;

- Upgraded the *Operation SOP of Gushengtang*, organized learning and training for operation managers and backbone employees, and actively expanded the application of SOP manual.

Case: Core medical personnel training camp

In 2021, Gushengtang carried out a total of 5 training camps for core medical personnel, with more than 200 participants from Changsha, Shanghai, Guangzhou, Suzhou, Zhengzhou and other places. The training was conducted through a combination of concept explanation, case analysis and on-site drills to further consolidate the business skills of key employees of various business functions.

Core medical personnel training camp

Case: Online follow-up training and exchange meeting

In March 2021, the medical line of Gushengtang organized training seminars on how to focus on online follow-up consultations during the pandemic, and conducted training and in-depth exchanges on the use of online apps, follow-up procedures, conversion of store experts and market strategies.

Online follow-up training and exchange meeting

Case: 2021 Gushengtang Guangzhou Regional Nursing Competition

In May 2021, the "Gushengtang Guangzhou Regional Nursing Competition" was successfully held in Tianhebei Branch. Through this nursing competition, nurses with strong practical skills and good service awareness were appointed to teaching posts, and a complete teaching practice course was developed for new nurses through the way of apprenticeship, so as to help new nurses to master job skills more quickly and provide better nursing support for doctors' treatment plans.

Guangzhou Regional Nursing Competition

Case: Training on the theme of "Gushengtang Operation SOP"

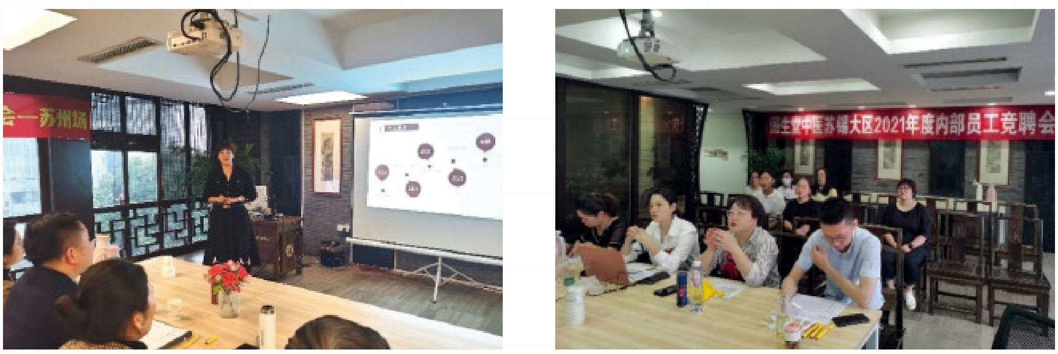
In 2021, Gushengtang conducted a total of 5 offline trainings with the theme of *Gushengtang Operation SOP* and 18 sessions of online trainings. The theme of *Gushengtang Operation SOP* includes SOP usage and implementation guidance, aiming to improve the standardized operation capability of branch and hospital administrators through training.

Training on the theme of *Gushengtang Operation SOP*

4.3.2 Fair Promotion

We are committed to building a fair, just and open promotion system. By establishing diversified promotion channels, we provide employees with a broad development platform. Employees can choose their own career development paths according to the Company's talent development plan and personal development goals.

In order to implement the Company's business philosophy of "co-creation, co-governance and sharing", we have formulated the *Management Measures for the Promotion of Employees' Ranks*. We organize promotion twice a year, in March and September separately, and determine the promotion direction of employees through multiple assessment standards such as performance inspection, general quality inspection and competence inspection.



Internal Competition for Employees

4.4 Reasonable Remuneration and Benefits

With talent as the core of development, Gushengtang continues to develop the remuneration and welfare system and is committed to providing employees with market-competitive remuneration packages. We have formulated the *Performance and Bonus Policy*, the *Performance Management Incentive Rules*, the *Broad Pay Table*, the *Employee Subsidy Management Rules* and other rules to further standardize management and stimulate the vitality of employees.

Our remuneration consists of three parts, namely, "total salary + bonus + subsidies". We carry out targeted assessment and evaluation for different employee ranks, job responsibilities and assessment KPIs. In order to ensure the fairness of performance KPI calculation, we follow six procedures, namely, performance target, performance coaching and follow-up, performance appraisal, performance feedback and communication, performance results approval and performance results application. We evaluate employees' performance in an objective and fair manner by evaluating their overall work completion and setting corresponding reward and punishment measures.

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

In addition, we also provide a series of welfare benefits for all employees:

- Statutory benefits: social insurance, housing provident fund, state-prescribed holidays, annual leave, marriage leave, maternity leave, sick leave, funeral leave, etc.
- Risk protection: commercial insurance, critical illness coverage and heart-warming fund
- Health management: annual physical examination, and free nucleic acid testing
- Home assistance: low-interest rate borrowings and housing subsidies for core management and core talents
- Lifestyle fun: holiday gifts and store membership card top-up, birthday benefits, departmental team building, discounts on consumption at store, transportation subsidies, meal subsidies, maternity allowances, etc.
- Care for employees: discounts on consumption at stores for employees and their immediate family members

4.5 Heartwarming Care

- **Care for Employees**

  Gushengtang implements the "people-oriented" concept and cares about the quality of life and work of every employee. In 2021, we carried out a number of employee care activities to help employees in need and improve their happiness and sense of belonging.

We provide employees with a variety of caring activities, such as cash gifts and gifts for important traditional festivals, birthday benefits, and group travel activities.

Gushengtang held a variety of employee care activities	
International Nurses Day	In May 2021, the 2021 “Nurse Day” event and excellent nurse commendation meeting were held.  
Mid-Autumn Festival	In September 2021, we held the Mid-Autumn Festival activity, including guessing lantern riddles and making moon cakes. Employees actively participated in the activity and created a strong Mid-Autumn Festival atmosphere.  
Birthday party for employees	We hold monthly birthday parties for employees, prepare gift cards for employees with birthday in the month, prepare cakes on site and sing birthday songs, which enhances the sense of belonging of employees and makes every employee feel the warmth of the Company.  

- **Poverty Alleviation**

  We have established the "Gushengtang Employee Warmth Fund" to provide one-off assistance and interest-free loans to employees and their family members who suffer from serious illnesses, accidental disability or accidents, resulting in significant family property loss and unable to bear expenses, effectively helping employees in difficulties, effectively caring for employees and enhancing corporate cohesion.

4.6 Safeguard Occupational Health and Safety

As a responsible company, the occupational health and safety of employees are particularly important in business operations. The Company strictly abides by the *Law of the People's Republic of China on the Prevention and Control of Occupational Diseases* and has formulated the *Quality, Environment and Occupational Health and Safety Management Manual*, which stipulates the monitoring and management of operation control, environment, safety objectives and performance, and compliance with laws and regulations related to occupational health and safety, and regulates the operation and activities related to occupational health and safety risks, so as to practically protect the occupational health of employees.

In order to protect the health of employees, the Company arranges year-end physical examination cards for employees every year or organizes free physical examination for employees, so that each employee can enjoy health examination services at the end of the year.

We respond to employee safety accidents in a timely manner. In case of production safety incidents, we will act on the safety protection treatment plan as soon as possible, including sending medical advice, understanding the accident situation, applying for work-related injury or commercial insurance assistance, and will follow up to and focus on improving internal management mechanism.

Measures to ensure occupational safety of employees during the pandemic

During the epidemic, Gushengtang actively responded to the national call, supported the country to fight against the epidemic, and attached importance to the life safety and occupational health of each employee of the Company.

- Since the beginning of the pandemic, the Company has insisted on distributing medical masks, alcohol and other materials to employees on a regular basis.

- When the epidemic broke out in Guangzhou, Shenzhen, Ningbo and other places, we provided more advanced protective equipment (such as medical protective clothing, medical isolation clothing, disposable medical masks, N95 masks, medical protective glasses, and disposable medical gloves) to support government departments, employees at the front line of stores and logistics personnel, ensuring the procurement and delivery of various protective materials.

- During the Chinese New Year in 2021, all experts and employees were given “pandemic prevention package”, and free nucleic acid tests and other benefits were provided to employees who returned home during the festival, so as to protect every employee and their family members.


- During the epidemic in Guangzhou, the Company provided RMB500/week subsidies to employees who were unable to work due to the epidemic. In response to the government’s requirements, the Company organized a nurse team to conduct nucleic acid tests for logistics personnel on a regular basis.


5 GREEN DEVELOPMENT JOIN HANDS TOWARDS LOW CARBON AND SUSTAINABILITY

Gushengtang takes minimizing the impact of its operation on the environment as its overall policy for green operation. It has formulated and firmly implemented the *Gushengtang Group ESG Management Rules* to continuously reduce pollutant emissions, improve resource utilization, promote circular economy, actively respond to climate change, and strive to build an environmentally friendly enterprise.

5.1 The Management of Environmental Impact

Gushengtang is concerned about the impact of its business operations on the environment and resources, formulated the Gushengtang ESG System and took proactive strategies and measures to address related environmental impacts.

5.1.1 The Management System of Environmental Impact

Gushengtang implements a top-down management mechanism of environmental impact, all relevant functional departments at headquarters and business operation sites actively carry out the environmental impact management, strictly comply with laws and regulations and local environmental requirements, strictly manage emissions, improve resource utilization, and build a management mechanism of effective environmental impact.

5.1.2 Emission Management

In strict compliance with relevant laws and regulations on pollutant prevention and control, Gushengtang has established a sound management mechanism for sewage, exhaust gas and solid waste, and actively implemented a number of green environmental protection measures to implement energy conservation and emission reduction.

Wastewater Management:

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

Case: Sewage treatment system of the Decoction Center

Gushengtang Traditional Chinese Medicine Decoction Center has established a comprehensive wastewater treatment system. After removing large suspended solids through a three-level grid, the sewage enters the adjusting tank for water quality and quantity adjustment. Subsequently, sewage is pumped by lift pump into the oxidation tank for biochemical treatment, and after being treated by the secondary sedimentation tank and phosphorus removal tank, the sewage meets the Class I standard of the second time period of the *Discharge Limits of Water Pollutants* (DB44/26-2001) of Guangdong Province and the standard of Table 2 standard of the *Discharge Standard of Water Pollutants for Traditional Chinese Medicine Pharmaceutical Industry* (GB 21906-2008) before discharge.

Exhaust Gas Management:

Gushengtang strictly abides by the *Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution* and other relevant laws and regulations of the places where it operates, as well as the internal management rules of the Group. Exhaust gas generated during the Company's operation is mainly exhaust gas from the Decoction Center, and exhaust gas and greenhouse gas generated from energy and fuel (official vehicles). In order to actively respond to the national "dual-carbon" policy and achieve the Group's environmental management objectives of continuously reducing exhaust gas and greenhouse gas emissions, we have adopted a series of measures to save energy and reduce carbon emissions, details of which are as follows:

- **Production**

  We give priority to the use of closed facilities to improve the efficiency of exhaust gas collection and reduce the fugitive emission of exhaust gas. At the same time, we adopt the "spray + activated carbon adsorption" treatment process to treat exhaust gas to ensure compliance with emission standards while reducing the concentration of exhaust gas emissions.

- **Administration**

  We take various energy-saving and environmental protection measures, such as using energy-saving products/equipment, strengthening electricity control, and reducing the use of official vehicles. At the same time, we advocate green travel among employees, and give priority to low-carbon travel methods to reduce the use of private cars.

Solid Waste Management:

Gushengtang is principally engaged in the provision of TCM medical services. Given the characteristics of such business, solid waste management is one of the important parts in our environmental protection work. We strictly abide by the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes*, the Regulations on the Administration of Medical Wastes and other relevant laws and regulations of the places where we operate and the internal management rules of the Group, standardize the methods and processes of solid waste collection and disposal, and avoid pollution to the soil and surrounding environment.

Non-hazardous wastes generated by the Company are mainly office and domestic wastes and production general solid wastes. Such wastes are collected and stored in a unified manner, and classified and recycled according to the waste classification standards or handed over to the relevant municipal units for treatment. Hazardous waste mainly comes from medical waste such as acupuncture needles. We collect, classify and store such hazardous waste according to relevant systems, and regularly hand it over to qualified disposal agencies for proper disposal.

In order to further improve the Company's solid waste management, we set a management goal of solid waste,

The Goal of Management of Solid Waste: The goal of management is to generate not more than 5 kg of solid waste (hazardous and non-hazardous) per month in each store.

Each store will promote the adoption of paperless office such as electronic medical records and electronic prescriptions, in order to achieve this goal.

5.2 Resources Management

Gushengtang attaches great importance to the management of resource, actively responds to the government's call for energy conservation and consumption reduction, and integrates the environmental protection concept of energy conservation and consumption reduction and sustainable use of resources into daily office operations. By issuing the "Energy Saving Proposal" and gradually establishing a corporate culture of green operation, the Company comprehensively promoted resource conservation and recycling.

Water Resources Management

All water used by the Group comes from municipal water supply, and there is no pressure in sourcing water. In order to achieve sustainable use of water resources, we have set management objectives based on the *Water Law of the People's Republic of China* and other relevant laws and regulations in the places where we operate, and combined with the current key performance indicators of water resources utilization.

The goal of water resources management: The Company will strive to improve the utilization efficiency of water resources and reduce the water resource consumption per million revenue year by year.

We have adopted a series of measures, such as establishing a supervision mechanism, carrying out water conservation education and publicity, and carrying out technical transformation, to ensure the achievement of water resource management objectives and the effective use of water resources. The details are as follows:

- Publish the *Energy Saving Proposal* to call on colleagues to save water;
- Post water-saving notices in areas such as washing basins and toilets to raise water-saving awareness;
- Regularly maintain the water supply system and water equipment to prevent leakage;
- Uses alcohol for disinfection and cleaning;
- Upgrade water system of the new medical hall to adopt advanced and efficient system was adopted.

Energy Management

The Group has formulated the goal of energy management based on the *Energy Conservation Law of the People's Republic of China* and other relevant laws and regulations in the places where it operates and the data of current energy key performance indicators.

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

The Company's energy consumption mainly comes from the electricity consumed in daily office and store operations. In the Energy Conservation Proposal, we encourage colleagues to implement the required electricity conservation measures like timely switching off the power and controlling the temperature of air conditioners. In addition, the Group actively promotes the application of green building elements in new construction projects, and reduces resource and energy consumption and improves environmental benefits through scientific planning of site resources, application of building energy-saving design and use of energy-saving products.

Management of Material Utilisation

Gushengtang manages the Group's product packaging materials and operational consumables, carry out planning and management of the use of resources, improving the rate of reuse of consumables and reducing unnecessary material waste.

- For the packaging materials of our products, we comply with the *Interim Management Measures for the Recycling of Packaging Resources* and other laws and regulations, using recyclable and environmentally friendly materials as much as possible to produce packaging materials such as product packaging and shopping bags, and will continue to explore new technologies and recycle materials to reduce the use of packaging materials.

- For the Group's operational consumables, we have revised the management regulations of the Group's warehouse consumables to standardise the acceptance criteria for the receipt of consumables and the warehouse management norms. We have implemented an ERP system for the management of existing consumables, the ERP system could automatically generate a purchase estimate and uses this as the standard to generate the Group's purchase plan. After the consumables are purchased, we will carry out centralized inspection in the Group's warehouse and put them on the shelves in batches according to the lots and production date of the consumables, so as to systematically manage the utilisation of each unit and reasonably plan and allocate available resources.

5.3 Response to Climate Change

Gushengtang attaches great importance to the impact of climate change on the Company's operation. Based on analysis of the Company's operation status, Gushengtang takes the initiative to identify potential risks and opportunities and takes appropriate measures to actively respond. Gushengtang has established the *Gushengtang ESG Management System* and are actively responding to extreme weather impacts from climate change, etc., with reference to the emergency management methods of each operating location.

As of December 31, 2021, we have identified the following major climate risks and countermeasures:

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

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

5.4 Advocating Green Office

Gushengtang implements environmental protection by starting from itself, actively advocates green low-carbon office in daily work, emphasizes the importance of energy saving and resource saving to employees, and creates a green office atmosphere.

- Encourage the use of digital office tools, such as: teleconferencing, etc.
- Encourage the use of LED lights or energy-saving lights
- Require air conditioning to be cooled at no less than 26 degrees Celsius in summer
- Encourage double-sided printing, and present meeting materials in electronic form to reduce paper consumption
- Require employees to turn off lights when leaving workstations and stores
- Encourage online meetings and reduction of official travel

6 WORKING TOGETHER FOR GOODWILL AND HARMONY

Gushengtang actively undertakes social responsibilities, is enthusiastic about public welfare and charity, and promotes social love. We continue to carry out social welfare activities, and actively spend money on donations for education, fighting against flood and benefiting the people with medical care. In 2021, Gushengtang spent RMB2,701,436 in public welfare and charity.

6.1 Supply Chain Management

Gushengtang is committed to building a transparent, harmonious and green supply chain. By formulating the *Supplier Access Rules*, the *Internal Control Rules of the Supply Center*, the *Purchase Order Management Rules*, and the *Drug Harvest and Acceptance Management Rules*, etc., Gushengtang follows up the whole process of all supplier access, review, evaluation, acceptance, withdrawal and other mechanisms to improve the stability and quality assurance of the supply chain.

As of December 31, 2021, Gushengtang cooperated with 319 suppliers in total, which are listed by region as follows:

Region	Unit	Number of suppliers
Southern China	pcs	103
Eastern China	pcs	151
Northern China	pcs	27
Central China	pcs	16
Northeast China	pcs	8
Southwest China	pcs	12
Northwest China	pcs	2
Hong Kong, Macau and Taiwan	pcs	0
Overseas	pcs	0

Supplier Management

- ***Supplier Management Process***

  Entry stage: We carry out on-site inspections based on the *Supplier on-site Inspection Checklist*, and evaluate their performance in terms of quality, safe production, environmental protection (such as whether they have passed environmental assessment and acceptance, whether there are environmental risks, whether the emissions meet the standards), etc. We strictly control the supplier entry standards, and would refuse the suppliers whose environmental requirements do not meet the standards, so as to effectively reduce supply chain risks.

  Performance stage: We conduct annual assessment of suppliers according to the *Qualified Supplier Annual Evaluation Form* in terms of qualification, arrival, quality of supply, safety production, environmental performance, etc. We also conduct flight inspections from time to time to monitor suppliers' performance in real time.

- ***Sunshine Procurement***

  Gushengtang focuses on establishing a clean supply chain, continuously promoting a corporate culture of integrity to suppliers and signing anti-corruption management regulations to bind both parties at the same time as signing contracts. In addition, we conduct due diligence investigations on our suppliers to identify potential unethical or corruption risks and address and report them in a timely manner to create a sunny and honest business relationship.

  In addition, we strive to build a green and sustainable supply chain and continuously optimize material procurement requirements. We have formulated the *Notice on the Use of Eco-friendly Plastic Bags*, requiring suppliers to provide degradable plastic bags.

6.2 Charity for Public Good

Focusing on public welfare and charity, Gushengtang undertakes corporate social responsibility and promotes grate love through three dimensions: donating to schools, fighting floods and benefiting the people through medical services. Gushengtang has made remarkable achievements in social welfare, winning the "2021 Health Communication Social Responsibility Award" from Guangzhou Daily Press Group and the "Public Health Guardian Enterprise of the Year" from the 3rd Guangzhou Guangdong, Hong Kong and Macau Greater Bay Area Social Responsibility Impact and Public Welfare Charity Gala.

Donations for Education

In support of the development of education, Gushengtang held charity donation activities for Henan University of Traditional Chinese Medicine, Gantang Town Central Primary School, Kaijiang County Jiaozhi Secondary School and Kaijiang Secondary School, and carried out the work of "Tu Zhiliang Love Education" and "Tu Zhiliang Scholarship" to contribute to the talent cause of China.

Case: Gushengtang made donation to Henan University of Traditional Chinese Medicine Foundation

In March 2021, Gushengtang donated RMB1 million to the Education Development Foundation of Henan University of Traditional Chinese Medicine. Based on the principle of “mutual benefit, complementary advantages and joint development”, both parties will promote cooperation in research, achievement transformation, talent training and resource sharing in the field of TCM modernization, and help build a TCM university with research-oriented teaching.

Donation by Gushengtang to Henan University of Traditional Chinese Medicine

Case: Gushengtang made donation to several primary and secondary schools in Kaijiang County

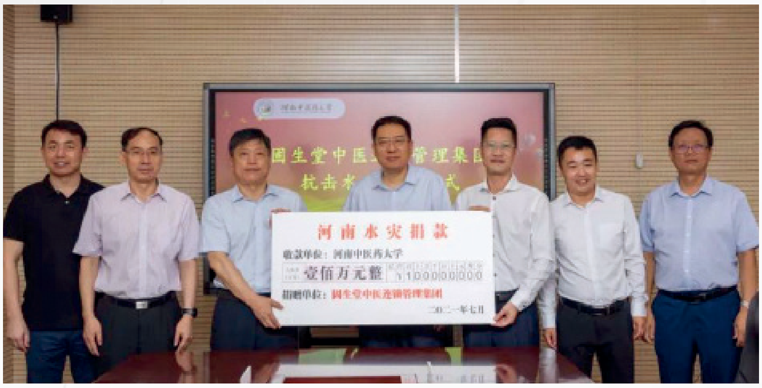
In 2021, Gushengtang donated scholarships and student subsidies to the Central Primary School, Jiaozhi Secondary School and Kaijiang Secondary School in Kaijiang County through “Tu Zhiliang Love Education” and “Tu Zhiliang Scholarship”. With the support of “Tu Zhiliang Love Education” and “Tu Zhiliang Scholarship” by Gushengtang, a number of students have realized their dreams and entered into well-known domestic colleges and universities, benefiting a total of 53 teachers and 344 students, and effectively promoting the development of China’s “talent power” cause.

Flood Fighting

In 2021, Henan Province suffered from extreme severe precipitation. 89 counties and cities, 60 towns and 1.24 million people in the province were affected. Gushengtang made donation to Henan University of Traditional Chinese Medicine and its affiliated hospitals to contribute to the fight against flood.

Case: Gushengtang helped fight against Henan's flood

In July 2021, in order to help respond to Henan flood, Gushengtang donated RMB1 million to Henan University of Traditional Chinese Medicine and its affiliated hospitals for assistance to the affected teachers and students, the post-disaster restoration of campus and hospitals, and the living and reconstruction work of Henan experts and their families. The president of Henan University of Traditional Chinese Medicine indicated that the university would make full use of the donation and do its best to protect the lives and property of teachers and students, and expressed gratitude for the good deed of Gushengtang, pointing out that Gushengtang's good deed embodies the spirit of Chinese medicine people to save lives and help the injured and the great love of entrepreneurs, conveying the warmth of the society.



Donation to Henan University of Traditional Chinese Medicine

Medical Services Benefiting People

Gushengtang fully made use of its own platform and technical advantages to contribute to the development of medical public welfare undertakings and the fight against the epidemic. In 2021, we established the Gushengtang Traditional Chinese Medicine Benefit Special Fund of the Chinese Red Cross Foundation, and assisted in nucleic acid testing in many regions amid resurgent pandemic, providing pro bono medical services to a number of sub-districts and communities across the country, so as to truly benefit the people with medical care and return to society.

Case: China Red Cross Foundation established the Gushengtang TCM Benefit Special Fund

On December 10, 2021, China Red Cross Foundation established the "Gushengtang TCM Benefit Special Fund". Gushengtang undertook to donate RMB10 million to the "Gushengtang Traditional Chinese Medicine Benefit Special Fund" in three years. During the Reporting Period, the first donation of RMB2 million was made. The donation will be used to promote medical and health public welfare services such as free TCM consultations and health checks for primary and secondary school students, community residents and enterprise employees, which is a reflection of the implementation of the "Healthy China 2030" planning outline.

Expert Representatives Discussing the Development of Gushengtang TCM Benefit Fund

Case: Gushengtang supported nucleic acid extraction in many places

In 2021, as the pandemic dragged on in China, Gushengtang actively responded to the call of the local health commission and organized teams to assist in nucleic acid testing in Guangzhou, Shenzhen, Fuzhou, Ningbo, Nanjing and other places. During the Reporting Period, Gushengtang assisted in nucleic acid testing for more than 250,000 person-times, and donated nearly 30,000 pieces of supplies such as medical masks and TCM epidemic prevention soup bags to build a safety defense line for the community.

Gushengtang Assisted in Nucleic Acid Extraction in Community

Case: Gushengtang organises charity clinics in various locations

Gushengtang cares about the life and health of the general public and organises large scale charity clinics for various communities and streets in Guangzhou. During the reporting period, Gushengtang's Dongshan Store, Liwan Branch and Tianhe North Branch provided pro bono health consultation services to local residents and healthy diet lectures to the retired elderly, offering medical convenience and benefits to the public.

Large scale charity clinic

Healthy diet lectures

7 OVERVIEW OF SUSTAINABLE DEVELOPMENT

7.1 List of Policies

ESG Indicators	Compliance with Relevant Laws and Regulations	Some Internal Policies
A Environmental	*Environmental Protection Law of the PRC* *Water Law of the PRC* *Water Pollution Prevention and Control Law of the PRC* *Law of the PRC on the Prevention and Control of Atmospheric Pollution* *Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste* *Energy Conservation Law of the PRC* *Regulations on the Administration of Medical Waste* *Discharge Limits of Water Pollutants (DB44/26-2001)* *Discharge Standard of Water Pollutants for Traditional Chinese Medicine Pharmaceutical Industry (GB 21906-2008)*	*ESG Management rULES of Gushengtang Group* *Energy Saving Proposal* *Notice on the Use of Eco-friendly Plastic Bags*

ESG Indicators	Compliance with Relevant Laws and Regulations	Some Internal Policies
B1. Employment	*Labor Law of the PRC* *Labor Contract Law of the PRC* *Employment Promotion Law of the PRC* *Law of the PRC on the Protection of Minors*	*Recruitment and Employment Management Rules* *Labor Contract Management Rules* *Measures for Confidentiality Management of Gushengtang* *Performance Management Incentive Rules* *Employee Welfare Management Rules* *Gushengtang Business Integrity Management Rules*
B2. Health and Safety	*Law of the PRC on the Prevention and Control of Occupational Diseases* *Production Safety Law of the PRC* *Fire Protection Law of the PRC* *Regulation on Work-Related Injury Insurance*	*Quality, Environment and Occupational Health and Safety Management Manual*
B3. Development and Training	\	*Training Management Rules of Gushengtang* *Management Measures for Employee Promotion* *Performance and Bonus Policy* *Performance Management Incentive Rules* *Broadband Pay Table* *Employee Subsidy Management Rules*

ESG Indicators	Compliance with Relevant Laws and Regulations	Some Internal Policies
B4. Labour Standards	*Labor Law of the PRC* *Labor Contract Law of the PRC* *Employment Promotion Law of the PRC* *Law of the PRC on the Protection of Minors* *Provisions on the Prohibition of Using Child Labour*	*Recruitment and Employment Management Rules* *Labor Contract Management Rules* *Measures for Confidentiality Management of Gushengtang* *Performance Management Incentive Rules* *Employee Welfare Management Rules* *Gushengtang Business Integrity Management Rules*
B5. Supply Chain Management	*Bidding Law of the PRC* *Civil Code of the PRC*	*Supplier Access Rules* *Supply Center Internal Control Rules* *Purchase Order Management Rules* *Drug Receipt and Acceptance Management Rules*

ESG Indicators	Compliance with Relevant Laws and Regulations	Some Internal Policies
B6. Product Responsibility	*Drug Administration Law of the PRC* *Pharmacopoeia of the People's Republic of China* *Good Supply Practice for Pharmaceutical Products* *Regulations on Supervision and Administration of Medical Devices* *Product Quality Law of the PRC* *Advertising Law of the PRC* *Law of the PRC on the Protection of Consumer Rights and Interests* *Information Security Law of the PRC* *Personal Information Protection Law of the PRC* *Trademark Law of the PRC* *Patent Law of the PRC* *Anti-Unfair Competition Law of the People's Republic of China* *Civil Code of the PRC* *Advertisement Law of the PRC* *Trade Marks Ordinance of Hong Kong*	*Quality Standards* *Quality Information Management Rules* *Drug Purchase Management Rules* *Drug Receipt and Acceptance Management Rules* *Management Rules for Drug Custody, Maintenance and Ex-warehouse Review* *Drug Transportation Management Rules* *Management Rules for Compound Preparations with Special Drugs* *Management Rules for Near-expiry Drugs* *Adverse Drug Reaction Reporting Management Rules* *Quality Control Rules for Pharmaceutical Operation Risks* *Drug Recall Management System* *Customer Service Manual* *Customer Complaint Handling Process* *System Data Security Management Rules*

ESG Indicators	Compliance with Relevant Laws and Regulations	Some Internal Policies
		User Data Protection Management Rules *Cyber Security Management Rules* *Cyber Information Security Complaint and Reporting Rules* *Gushengtang Group Data Classification and Confidentiality Management Rules* *Management Rules for Employee Identity and Access* *Cyber and Information Security Emergency Plan* *Management Measures for the Protection of Trade Secrets of Gushengtang Group* *Intellectual Property Management Measures of Gushengtang Group*
B7. Anti-corruption	*Company Law of the PRC* *Anti-Unfair Competition Law of the People's Republic of China* *Anti-money Laundering Law of the PRC* *Bidding Law of the PRC* *Foreign Corrupt Practices Act*	*Measures for Commercial Integrity Management of Gushengtang Group* *Anti-fraud and Reporting Rules* *Anti-corruption Management Regulations*
B8. Community Investment	*Charity Law of the PRC*	*Cash Management Regulations*

7.2 ESG Key Performance List

ESG Indicators	Unit	2021 Data
A Environmental		
A1 Emissions		
A1.1 The types of emissions and respective emissions data		
NOx emissions[1]	kg	393.23
SOx emissions[1]	kg	0.73
Particulate matter emissions[1]	kg	36.38
Chemical oxygen demand CODcr emissions[2]	Tonnes	3.48
Suspended solids SS emissions[2]	Tonnes	5.62
A1.2 Greenhouse gas emissions and intensity		
Direct GHG emissions (Scope 1)[3]	CO_2e (tonnes)	112.64
Indirect greenhouse gas emissions (Scope 2)[4]	CO_2e (tonnes)	5,396.92
Total greenhouse gas emissions	CO_2e (tonnes)	5,509.56
Intensity of greenhouse gas emissions	tCO_2e/million revenue (RMB)	4.02
A1.3 Total hazardous waste produced and intensity		
Waste lamp tubes	tonnes	0.02
Waste printer toner cartridges	tonnes	0.86
Waste printer ink cartridges	tonnes	0.12
Waste battery	tonnes	0.02
Medical waste	tonnes	19.34
Total hazardous waste	tonnes	20.36
Hazardous waste intensity	tonnes/million revenue (RMB)	0.015

1 Emission of Nitrogen oxides NOx, sulfur oxides SOx and granulated materials were mainly from the air pollutants from the utilisation of Gushengtang vehicles, calculated with reference to the Hong Kong Stock Exchange document "Appendix II: Guidance on Reporting of Environmental Key Performance Indicators".

2 Chemical oxygen demand CODcr and SS were mainly from wastewater discharged during the operation of Gushengtang stores.

3 Scope 1 GHGs are mainly derived from direct GHG emissions from company operations (e.g. fuel consumption for business vehicles) and are calculated using the formula: CO_2 equivalent emissions from fossil fuel combustion = fuel consumed x net calorific value x carbon content per unit of calorific value x rate of carbon oxidation of the fuel x (44/12).

4 Scope 2 GHG emission is mainly from indirect greenhouse gas emissions generated by purchased electricity consumed in the company's operations, calculated with reference to the Hong Kong Stock Exchange document "Appendix II: Guidance on Reporting of Environmental Key Performance Indicators", among which the power emission factor is 0.5810 tCO_2/MWh in the "Accounting Methods and Reporting Guidelines for Greenhouse Gas Emissions of Enterprises" (Environmental Office Climate [2021] No. 9).

ESG Indicators	Unit	2021 Data
A1.4 Total non-hazardous waste produced and intensity		
General industrial solid waste	Tonnes	976.91
Office and domestic waste	Tonnes	174.38
Total non-hazardous waste	Tonnes	1,151.29
Non-hazardous waste intensity	Tonnes/million revenue (RMB)	0.84
A2 Use of Resources		
A2.1 Direct and indirect energy consumption by type and intensity		
Gasoline consumption	Litre	49,558.44
Purchased electricity	kWh	9,289,019.15
Direct energy consumption	kWh	443,217.70
Indirect energy consumption	kWh	9,289,019.15
Comprehensive energy consumption	kWh	9,732,236.85
Comprehensive energy consumption intensity	kWh/million revenue (RMB)	7,092.96
A2.2 Water consumption in total and intensity		
Fresh water consumption	Tonnes	92,698.33
Intensity of fresh water consumption	Tonnes/million revenue (RMB)	67.56
A2.5 Total packaging material used for finished products and with reference to per unit produced		
Consumption of paper shopping bags	Tonnes	85.21
Other packaging materials	Tonnes	0.78
Total packaging material used	Tonnes	85.99
Density of packaging material used	Tonnes/million revenue (RMB)	0.06

ESG Indicators		Unit	2021 Data
B Social			
B1 Employment			
B1.1 Total workforce by gender, employment type, age group and geographical region.			
Total number of employees		person	1,661
By gender	Number of male employees	person	487
	Number of female employees	person	1,174
By employment type	Number of full-time employees	person	1,661
By age group	Number of employees aged 18–29	person	960
	Number of employees aged 30–49	person	623
	Number of employees aged 50 and above	person	78
By region	Number of employees in Mainland China	person	1,661
B1.2 Employee turnover rate by gender, age group and geographical region			
Total employee turnover rate		%	22.98
By gender	Male employee turnover rate	%	24.90
	Female employee turnover rate	%	22.10
By age group	Turnover rate of employees aged 18–29	%	26.10
	Turnover rate of employees aged 30–49	%	19.30
	Turnover rate of employees aged 50 and above	%	11.00
By region	Turnover rate of employees in Mainland China	%	22.98
B2 Health and Safety			
B2.1 Number and rate of work-related fatalities occurred in the past three years (2019–2021)			
Number of work-related fatalities		person	0
Rate of work-related fatalities		%	0
B2.2 Lost days due to work injury			
Lost days due to work injury		days	235
Number of work-related injuries		times	4

ESG Indicators		Unit	2021 Data
B3 Development and Training[5]			
B3.1 The percentage of employees trained by gender and employee category			
Total number of employees trained		person	2,380
Percentage of employees trained		%	100%
By Gender	Number of male employees trained	person	655
	Percentage of male employees trained	%	27.52
	Number of female employees trained	person	1,725
	Percentage of female employees trained	%	72.48
By employee category	Number of senior management trained	person	58
	Percentage of senior management trained	%	2.44
	Number of middle management trained	person	258
	Percentage of middle management trained	%	10.84
	Number of junior employees trained	person	2,064
	Percentage of junior employees trained	%	86.72
B3.2 The average training hours completed per employee by gender and employee category			
Average training hours of employees		hours	18.60
By gender	Average training hours of male employees	hours	21.98
	Average training hours of female employees	hours	17.32
By employee category	Average training hours of senior management	hours	6.81
	Average training hours of middle management	hours	21.81
	Average training hours of junior employees	hours	18.53
B5 Supply Chain Management			
B5.1 Number of suppliers by geographical region			
Total number of suppliers		pcs	319
By Region	Number of suppliers in Southern China	pcs	103
	Number of suppliers in Eastern China	pcs	151
	Number of suppliers in Northern China	pcs	27
	Number of suppliers in Central China	pcs	16
	Number of suppliers in Northeast China	pcs	8
	Number of suppliers in Southwest China	pcs	12
	Number of local suppliers in Northwest China	pcs	2

5 B3 Training related data represents a compilation of annual data in 2021

ESG Indicators	Unit	2021 Data
B6 Product Responsibility		
B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons		
Number of products subject to recalls for safety and health reasons	pieces	0
Percentage of total products sold/shipped	%	0
B6.2 Number of products and service related complaints received		
Total number of complaints received	times	48
Among them, medical service complaints	times	48
B7 Anti-corruption		
B7.1 Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases		
Number of concluded legal cases regarding corrupt practices	pieces	0
B7.3 Description of anti-corruption training provided to directors and employees		
Number of Directors participating in anti-corruption training	person	9
Total hours of anti-corruption training provided to directors	hours	18
Number of employees participating in anti-corruption training	person	1,628
Total hours of anti-corruption training provided to employees	hours	3,526
B8 Community Investment		
B8.2 Resources contributed to the focus area		
Total investment in charitable donations	Yuan (RMB)	2,701,436
Investment in education	Yuan (RMB)	1,687,756
Investment in disaster relief	Yuan (RMB)	1,013,680

7.3 ESG Reporting Guide Content Index

Subject Areas, Aspects, General Disclosures and KPIs		Related section in this ESG Report	Note
A. Environmental			
Aspect A1: Emissions			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	5 Green Development Join Hands Towards Low Carbon And Sustainability 7.1 List Of Policies 7.2 ESG Key Performance List	During the reporting period, the Group did not have any environmental pollution incidents or environmental administrative punishment
A1.1	The types of emissions and respective emissions data	5.1 Emission Management 7.2 ESG Key Performance List	
A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	7.2 ESG Key Performance List	
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	5.1 Emission Management 7.2 ESG Key Performance List	
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	5.1 Emission Management 7.2 ESG Key Performance List	
A1.5	Description of emissions target(s) set and steps taken to achieve them	5.1 Emission Management	
A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them	5.1 Emission Management	

Subject Areas, Aspects, General Disclosures and KPIs		Related section in this ESG Report	Note
Aspect A2: Use of Resources			
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials	5.2 Resources Management 7.1 List Of Policies 7.2 ESG Key Performance List	
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility)	7.2 ESG Key Performance List	
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility)	7.2 ESG Key Performance List	
A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them	5.2 Resources Management	
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them	5.2 Resources Management	
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	7.2 ESG Key Performance List	
Aspect A3: The Environment and Natural Resources			
General Disclosure	Policies on minimising the issuer's significant impacts on the environment and natural resources	5 Green Development Join Hands Towards Low Carbon And Sustainability	
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	5.1 Emission Management 5.2 Resources Management 5.4 Advocating Green Office	

Subject Areas, Aspects, General Disclosures and KPIs		Related section in this ESG Report	Note
Aspect A4: Climate Change			
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer	5.3 Response to Climate Change	
A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them	5.3 Response to Climate Change	
B. Social			
Employment and Labour Practices			
Aspect B1: Employment			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	4 Talents First And Working Together For A Common Purpose 7.1 List Of Policies 7.2 ESG Key Performance List	
B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region	7.2 ESG Key Performance List	
B1.2	Employee turnover rate by gender, age group and geographical region	7.2 ESG Key Performance List	

Subject Areas, Aspects, General Disclosures and KPIs		Related section in this ESG Report	Note
Aspect B2: Health and Safety			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	4.6 Safeguard Occupational Health and Safety 7.1 List Of Policies	
B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year	7.2 ESG Key Performance List	
B2.2	Lost days due to work injury	7.2 ESG Key Performance List	
B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored	4.6 Safeguard Occupational Health and Safety	

Subject Areas, Aspects, General Disclosures and KPIs		Related section in this ESG Report	Note
Aspect B3: Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	4.3 Multi-dimensional training and development	
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management)	7.2 ESG Key Performance List	
B3.2	The average training hours completed per employee by gender and employee category	7.2 ESG Key Performance List	
Aspect B4: Labour Standards			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour	4.1 Diversified and Equal Employment 7.1 List Of Policies	During the reporting period, the Group has complied with relevant laws and regulations relating to preventing child and forced labour that have significant impact on the Company.
B4.1	Description of measures to review employment practices to avoid child and forced labour	4.1 Diversified and Equal Employment	
B4.2	Description of steps taken to eliminate such practices when discovered	4.1 Diversified and Equal Employment	

Subject Areas, Aspects, General Disclosures and KPIs		Related section in this ESG Report	Note
Operating Practices			
Aspect B5: Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain	6.1 Supply Chain Management	
B5.1	Number of suppliers by geographical region	6.1 Supply Chain Management 7.2 ESG Key Performance List	
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored	6.1 Supply Chain Management	
B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored	6.1 Supply Chain Management	
B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored	6.1 Supply Chain Management	
Aspect B6: Product Responsibility			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	3 Medical Service With Conscience, Join Hands For Quality With Peace Of Mind 7.1 List Of Policies	

Subject Areas, Aspects, General Disclosures and KPIs		Related section in this ESG Report	Note
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	3.1 Confidence in product quality 7.2 ESG Key Performance List	During the reporting period, there was no recall of the Group's products due to safety and health reasons.
B6.2	Number of products and service related complaints received and how they are dealt with	3.2 Medical Services with Peace of Mind 7.2 ESG Key Performance List	
B6.3	Description of practices relating to observing and protecting intellectual property rights	3.1.3 Intellectual Property Protection	During the reporting period, the Group strictly complied with laws and regulations relating to intellectual property protection
B6.4	Description of quality assurance process and recall procedures	3.1.1 Quality Management System	
B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored	3.2.2 Customer Information and Privacy Protection	During the reporting period, the Group strictly complied with the laws and regulations relating to consumer privacy protection

Subject Areas, Aspects, General Disclosures and KPIs		Related section in this ESG Report	Note
Aspect B7: Anti-corruption			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	2.5 Anti-corruption 7.1 List Of Policies	During the reporting period, the Group did not involve in any litigation regarding corruption, bribery, extortion, fraud and money laundering
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	7.2 ESG Key Performance List	
B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored	2.5 Anti-corruption	
B7.3	Description of anti-corruption training provided to directors and staff	2.5 Anti-corruption 7.2 ESG Key Performance List	
Community			
Aspect B8: Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	6.2 Charity for Public Good 7.1 List Of Policies	
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	6.2 Charity for Public Good 7.2 ESG Key Performance List	
B8.2	Resources contributed (e.g. money or time) to the focus area	6.2 Charity for Public Good 7.2 ESG Key Performance List	

Independent Auditor's Report

Ernst & Young
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

安永會計師事務所
香港鰂魚涌英皇道979號
太古坊一座27樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

To the Shareholders of GUSHENGTANG HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of GUSHENGTANG HOLDINGS LIMITED (the "Company") and its subsidiaries (the "Group") set out on pages 147 to 267, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement of financial instruments	
In the year ended 31 December 2021, the Group recorded a fair value loss of RMB419,490,000, mainly in relation to the convertible redeemable preferred shares and convertible bonds, which were measured at fair value. As there was no market price available for such financial instruments, in these cases, fair value is determined using valuation models, where the value is affected by key assumptions that cannot be verified by external market data. The management of the Group have involved an independent third party valuer to assist in assessing the fair value of the aforesaid financial instruments. These key assumptions include unobservable market rates, projected cash flows and the consideration of recent business developments in valuation methodologies relating to the impact of counterparty and own credit risk. As the impact of these assumptions on the valuation of the aforementioned financial instruments significantly affects the measurement of profit or loss and disclosures of financial risks in the financial statements, it was considered as a key audit matter. The related disclosures of the fair value measurement of the financial instruments are included in notes 3, 26, 27 and 40 to these financial statements.	The audit procedures we performed, among others, included the following: • evaluating the competence, capabilities and independence of the management's independent third party valuer and involving our internal valuation specialists to assist us in evaluating the methodologies, key indexes, market data and discount rate used by the management and external valuer for determining the fair value of the aforesaid financial instruments; • evaluating the underlying data used in the management's cashflow projection on the future revenues and operating results by comparing to the historical financial performance of the Group; • evaluating management's assumptions of growth rate by examining the business development plans and historical annual growth rate; • checking the mathematical accuracy of computation supporting the valuation model; and • assessing the adequacy of the related disclosures in the consolidated financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of goodwill	
As at 31 December 2021, the Group recorded goodwill of RMB688,615,000. In accordance with HKFRSs, the Group is required to perform the impairment test for goodwill annually and the management of the Group have involved an independent third party valuer to assist in performing the impairment test. The recoverable amount of each cash-generating unit (the "CGU") is the higher of its fair value less costs of disposal and its value in use using discounted cash flow models based on a financial budget covering a period of 5 years. The impairment test involves significant judgements about future business performance, with key assumptions including cash flows, the overall long-term growth rates and discount rates used. This matter was significant to our audit because the balance was material and the test process involved significant judgements. The disclosures about impairment testing of goodwill are included in notes 3 and 16 to these financial statements.	The audit procedures we performed, among others, included the following: • evaluating the competence, capabilities and independence of the management's independent third party valuer and involving our internal valuation specialists to assist us in evaluating the methodologies and the discount rate used by the management and external valuer for determining the recoverable amount; • evaluating the underlying data used in the management's cashflow projection on the future revenues and operating results by comparing to the financial performance of each CGU during the year 2021; • evaluating management's assumptions of growth rate of each CGU by examining the business development plans and historical annual growth rate of each CGU; • checking the mathematical accuracy of computation supporting the value in use model; and • assessing the adequacy of the related disclosures in the consolidated financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Recognition of deferred tax assets with respect to tax losses	
As at 31 December 2021, the Group recognised deferred tax assets on tax losses amounted to RMB25,874,000. Deferred tax assets are recognised on tax losses when it is probable that future taxable profit will be available against which the tax losses can be utilized. The estimation regarding the recognition of deferred tax assets on tax losses is assessed by management at the end of each reporting period by taking into account the forecasts of future taxable profits as well as the law and jurisdiction with respect to the taxable items. Given the degree of judgment and estimation involved to classify certain deferred tax assets as recoverable or otherwise, we deemed this issue to be a key audit matter. The related disclosures of deferred tax assets are included in notes 3 and 28 to these financial statements.	The audit procedures we have performed, among others, included the following: • evaluating management's estimation with respect to the projected profit forecasts by comparing them against historical financial performance and available external information; • reviewing the completeness and accuracy of the amounts recognised as deferred tax assets by checking to correspondences with the tax authorities and other uncertain tax positions; • checking the mathematical accuracy of computation supporting the recognition of deferred tax assets; and • assessing the adequacy of the related disclosures in the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We remain solely responsible for our audit opinion.

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

The engagement partner on the audit resulting in this independent auditor's report is Hui Kin Fai, Stephen.

Ernst & Young
Certified Public Accountants
Hong Kong
30 March 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2021

	Notes	2021 RMB'000	2020 RMB'000
REVENUE	5	**1,372,099**	925,366
Cost of sales		**(751,795)**	(487,876)
Gross profit		**620,304**	437,490
Other income and gains	5	**22,314**	11,506
Selling and distribution expenses		**(413,526)**	(259,704)
Administrative expenses		**(248,034)**	(70,386)
Fair value changes of convertible redeemable preferred shares and convertible bonds		**(419,490)**	(316,194)
Other expenses		**(52,238)**	(11,136)
Finance costs	6	**(28,403)**	(33,511)
Share of profits of associates	17	**1,051**	172
LOSS BEFORE TAX	7	**(518,022)**	(241,763)
Income tax credit/(expenses)	10	**11,136**	(13,565)
LOSS FOR THE YEAR		**(506,886)**	(255,328)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**8,284**	20,608

	Notes	2021 RMB'000	2020 RMB'000
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Translation of the Company's functional currency to presentation currency		**28,737**	58,160
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**37,021**	78,768
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(469,865)**	(176,560)
(Loss)/profit attributable to:			
Owners of the parent		**(507,069)**	(255,749)
Non-controlling interests		**183**	421
		(506,886)	(255,328)
Total comprehensive (loss)/income attributable to:			
Owners of the parent		**(470,048)**	(176,981)
Non-controlling interests		**183**	421
		(469,865)	(176,560)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
— For loss for the year	12	**(4.38)**	(3.28)

Consolidated Statement of Financial Position

As of December 31, 2021

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**64,803**	41,462
Right-of-use assets	15(a)	**248,143**	184,171
Goodwill	16	**688,615**	545,110
Other intangible assets	14	**31,425**	22,759
Investment in associates	17	**11,004**	6,172
Prepayments, other receivables and other assets	20	**10,814**	11,476
Deferred tax assets	28	**40,164**	23,376
Total non-current assets		**1,094,968**	834,526
CURRENT ASSETS			
Inventories	18	**77,364**	57,743
Trade receivables	19	**72,696**	56,576
Prepayments, deposits and other receivables	20	**109,294**	132,180
Financial assets at fair value through profit or loss	21	**3,207**	114,425
Restricted cash	22	**3,567**	—
Cash and cash equivalents	22	**1,030,704**	249,994
Total current assets		**1,296,832**	610,918
CURRENT LIABILITIES			
Trade and bills payables	23	**161,332**	113,110
Other payables and accruals	24	**276,617**	258,664
Interest-bearing bank and other borrowings	25	**17,478**	83,879
Bonds payable	27	**—**	329,013
Convertible redeemable preferred shares	26	**—**	1,204,204
Lease liabilities	15(b)	**57,458**	40,029
Provisions	33	**121**	121
Tax payable		**8,129**	9,064
Total current liabilities		**521,135**	2,038,084
NET CURRENT ASSETS/(LIABILITIES)		**775,697**	(1,427,166)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,870,665**	(592,640)

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	25	**66,835**	61,259
Convertible bonds	27	**—**	198,134
Lease liabilities	15(b)	**203,594**	158,145
Other payables and accruals	24	**44,638**	118,807
Deferred tax liabilities	28	**6,187**	4,322
Total non-current liabilities		**321,254**	540,667
Net assets/(liabilities)		**1,549,411**	(1,133,307)
EQUITY/(DEFICIENCY IN ASSETS)			
Equity attributable to owners of the Company			
Share capital	29	**147**	—
Reserves	32	**1,548,747**	(1,133,641)
		1,548,894	(1,133,641)
Non-controlling interests		**517**	334
Total equity/(deficiency in assets)		**1,549,411**	(1,133,307)

Tu Zhiliang
Director

Liu Kanghua
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2021

	Attributable to owners of the Company									Total
				Share	Statutory	Exchange			Non-	equity/
	Share	Share	Capital	option	surplus	fluctuation	Accumulated		controlling	(deficiency
	capital	premium*	reserve*	reserve*	reserve*	reserve*	losses*	Total	interests	in asset)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 29)	(Note 29)	(Note 32)	(Note 32)	(Note 32)	(Note 32)				
At 1 January 2021	–	–	23,627	61,875	4,488	25,090	(1,248,721)	(1,133,641)	334	(1,133,307)
Loss for the year	–	–	–	–	–	–	(507,069)	(507,069)	183	(506,886)
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	–	8,284	–	8,284	–	8,284
Translation of the Company's functional currency to presentation currency	–	–	–	–	–	28,737	–	28,737	–	28,737
Total comprehensive loss for the year	–	–	–	–	–	37,021	(507,069)	(470,048)	183	(469,865)
Issue of ordinary shares (note 29)	14	349,428	–	–	–	–	–	349,442	–	349,442
Equity-settled share option arrangements (note 30)	–	–	–	127,656	–	–	–	127,656	–	127,656
Share options exercised (note 29)	11	98,618	–	(61,875)	–	–	–	36,754	–	36,754
Issue of shares in connection with the IPO (note 29)	18	660,447	–	–	–	–	–	660,465	–	660,465
Share issue expenses (note 29)	–	(46,322)	–	–	–	–	–	(46,322)	–	(46,322)
Transfer from convertible redeemable preferred shares (note 29)	104	2,024,484	–	–	–	–	–	2,024,588	–	2,024,588
At 31 December 2021	147	3,086,655	23,627	127,656	4,488	62,111	(1,755,790)	1,548,894	517	1,549,411

	Attributable to owners of the parent								
	Share capital RMB'000 (Note 29)	Capital reserve* RMB'000 (Note 32)	Share option reserve* RMB'000 (Note 32)	Statutory surplus reserve* RMB'000 (Note 32)	Exchange fluctuation reserve* RMB'000 (Note 32)	Accumulated losses* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total deficiency in assets RMB'000
At 1 January 2020	–	25,000	46,026	3,013	(53,678)	(991,497)	(971,136)	948	(970,188)
Loss for the year	–	–	–	–	–	(255,749)	(255,749)	421	(255,328)
Other comprehensive loss for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	20,608	–	20,608	–	20,608
Translation of the Company's functional currency to presentation currency	–	–	–	–	58,160	–	58,160	–	58,160
Total comprehensive income/(loss) for the year	–	–	–	–	78,768	(255,749)	(176,981)	421	(176,560)
Transfer from retained profits	–	–	–	1,475	–	(1,475)	–	–	–
Equity-settled share option arrangements	–	–	15,849	–	–	–	15,849	–	15,849
Acquisition of non-controlling interests	–	(1,373)	–	–	–	–	(1,373)	(1,035)	(2,408)
At 31 December 2020	–	23,627	61,875	4,488	25,090	(1,248,721)	(1,133,641)	334	(1,133,307)

* There reserve accounts comprise the consolidated reserve of RMB1,548,747,000 (2020: 1,133,641,000(negative)) in the consolidated statement of financial position as at 31 December 2021.

Consolidated Statement of Cash Flows

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(518,022)**	(241,763)
Adjustments for:			
Finance costs	6	**28,403**	33,511
Share of profits of associates	17	**(1,051)**	(172)
Interest income	5	**(3,525)**	(3,246)
Amortisation of other intangible assets	7	**4,058**	1,195
Fair value loss on convertible redeemable preferred shares	7	**409,553**	319,844
Fair value loss/(gain) on convertible bonds	7	**9,937**	(3,650)
Fair value loss/(gain) on financial assets at fair value through profit or loss	7	**4,755**	(1,961)
COVID-19-related rent concessions from lessors	15(b)	**—**	(3,487)
Depreciation of property, plant and equipment	7	**25,985**	22,184
Depreciation of right-of-use assets	7	**63,800**	42,266
Impairment of trade receivable	7	**353**	623
Impairment of property, plant and equipment	7	**—**	657
Equity-settled share option expense		**171,405**	15,361
		195,651	181,362
Increase in restricted cash		**(3,567)**	—
Increase in inventories		**(18,631)**	(12,646)
Increase in trade receivables		**(8,566)**	(14,854)
Increase in prepayments, other receivables and other assets		**(12,671)**	(18,020)
Increase/(decrease) in trade and bills payables		**21,609**	(7,994)
Increase in other payables and accruals		**15,604**	27,341
Decrease in provisions		**—**	(1,040)
Cash generated from operations		**189,429**	154,149
Interest received		**3,525**	3,246
Corporate income tax paid		**(5,199)**	(2,491)
Net cash flows from operating activities		**187,755**	154,904

	Notes	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(49,721)**	(18,591)
Proceeds from disposal of items of property, plant and equipment		**1,003**	98
Proceeds from disposal of other intangible assets		**—**	4
Additions to other intangible assets		**(2,674)**	(2,133)
Acquisition of subsidiaries	34	**(133,418)**	(38,810)
Additional investment in associates		**(6,781)**	(3,000)
Purchase of financial assets at fair value through profit or loss		**(321,000)**	(990,854)
Proceeds of redemption of financial assets at fair value through profit or loss		**429,371**	937,775
Loans to a director		**—**	(1,960)
Repayment from a director		**34,268**	—
Net cash flows used in investing activities		**(48,952)**	(117,471)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of preferred shares	38	**243,740**	—
Issue of ordinary shares		**250,558**	—
Proceeds from issue of shares related to initial public offering	29	**660,465**	—
Share issue expenses		**(33,113)**	—
New bank loans and other borrowings	38	**112,466**	146,618
Repayment of bank loans and other borrowings	38	**(173,291)**	(19,535)
Principal portion of lease payments	38	**(64,840)**	(37,039)
Interest paid	38	**(28,403)**	(11,434)
Acquisition of non-controlling interests		**—**	(2,408)
Repayment of convertible bonds	38	**(329,013)**	—
Net cash flows from financing activities		**638,569**	76,202

Consolidated Statement of Cash Flows

Year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS		**777,372**	113,635
Cash and cash equivalents at the beginning of the year		**249,994**	138,117
Effect of foreign exchange rate changes, net		**3,338**	(1,758)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,030,704**	249,994
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	**634,271**	249,994
Non-pledged time deposits with original maturity of less than three months when acquired	22	**400,000**	—
Less: Restricted cash	22	**(3,567)**	—
Cash and bank balances as stated in the consolidated statement of financial position and the consolidated statement of cash flows		**1,030,704**	249,994

1. CORPORATE AND GROUP INFORMATION

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

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

The shares of the Company were listed on the Main Board of the Stock Exchange on 10 December 2021.

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Guangdong Gushengtang Health Technology Co., Limited[(a) and (b)]	PRC/Mainland China	RMB30,577,276	–	100%	Investment management
Guangzhou Blue Ocean Pharmaceutical Co., Ltd. ("Blue Ocean")[(b)]	PRC/Mainland China	RMB10,000,000	–	100%	Pharmaceutical wholesale and supply chain management
Beijing Gushengtang TCM Hospital Co., Ltd.[(b)]	PRC/Mainland China	RMB600,000	–	100%	Provision of medical services
Shenzhen Gushengtang Yuanbo Out-patient Department[(b)]	PRC/Mainland China	RMB2,000,000	–	100%	Provision of medical services
Zhongshan Gushengtang TCM Out-patient Department Co., Ltd.[(b)]	PRC/Mainland China	RMB3,000,000	–	100%	Provision of medical services
Foshan Shunde Gushengtang TCM Out-patient Department Co., Ltd.[(b)]	PRC/Mainland China	RMB5,000,000	–	100%	Provision of medical services

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Foshan Gushengtang TCM Out-patient Department Co., Ltd. (Nanhai Branch)(b)	PRC/Mainland China	RMB1,200,000	–	100%	Provision of medical services
Fuzhou Gushengtang General Out-patient Department Co., Ltd.(b)	PRC/Mainland China	RMB5,600,000	–	100%	Provision of medical services
Shanghai Wanjia TCM Out-patient Co., Ltd.(b)	PRC/Mainland China	RMB16,800,000	–	100%	Provision of medical services
Shanghai Duzhuang Out-patient Department Co., Ltd.(b)	PRC/Mainland China	RMB500,000	–	100%	Provision of medical services
Shanghai Jinyue Out-patient Department Co., Ltd.(b)	PRC/Mainland China	RMB2,000,000	–	100%	Provision of medical services
Shanghai Gushengtang Tongbaokang TCM Out-patient Department Co., Ltd.(b)	PRC/Mainland China	RMB500,000	–	100%	Provision of medical services
Shanghai Zhenantang TCM Out-patient Department Co., Ltd.(b)	PRC/Mainland China	RMB16,000,000	–	100%	Provision of medical services
Shanghai Zhongyida TCM Out-patient Department Co., Ltd.(b)	PRC/Mainland China	RMB6,000,000	–	100%	Provision of medical services
Nanjing Gushengtang Ningxi TCM Out-patient Department Co.,Ltd.(b)	PRC/Mainland China	RMB33,500,000	–	100%	Provision of medical services

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Suzhou Gushengtang Taohuawu TMC Out-patient Department Co., Ltd.[(b)]	PRC/Mainland China	RMB1,000,000	–	100%	Provision of medical services
Suzhou Tongan Out-patient Department Co., Ltd.[(b)]	PRC/Mainland China	RMB1,000,000	–	100%	Provision of medical services
Suzhou Gushengtang Shilu Clinic Co., Ltd.[(b)]	PRC/Mainland China	RMB3,500,000	–	100%	Provision of medical services
Ningbo Haishu Gushengtang TCM Out-patient Co., Ltd.[(b)]	PRC/Mainland China	RMB12,000,000	–	100%	Provision of medical services
Ningbo Yinzhou Gushengtang Zhongyishoutang TCM Out-patient Department Co., Ltd.[(b)]	PRC/Mainland China	RMB15,000,000	–	100%	Provision of medical services
Ningbo Jiangbei Wenjiao Gushengtang TCM Out-patient Department Co., Ltd.[(b)]	PRC/Mainland China	RMB3,000,000	–	100%	Provision of medical services
Ningbo Zhenhai Gushengtang Manshan TCM Out-patient Department Co., Ltd.[(b)]	PRC/Mainland China	RMB2,200,000	–	100%	Provision of medical services
Guangzhou Tianhe Gushengtang Healthcare Out-patient Co., Ltd.[(b)]	PRC/Mainland China	RMB500,000	–	100%	Provision of medical services
Guangzhou Haizhu Gushengtang TCM Out-patient Department Co., Ltd.[(b) and (c)]	PRC/Mainland China	RMB4,000,000	–	90%	Provision of medical services

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Guangzhou Gushengtang Lingnan TCM Hospital Co., Ltd.[(b)]	PRC/Mainland China	RMB990,000	–	100%	Provision of medical services
Guangzhou Liwan Gushengtang TCM Out-patient Department Co., Ltd.[(b)]	PRC/Mainland China	RMB1,000,000	–	100%	Provision of medical services
Guangzhou Baiyuan Gushengtang General Out-patient Department Co.,Ltd.[(b)]	PRC/Mainland China	RMB1,000,000	–	100%	Provision of medical services
Guangzhou Haizhu Gushengtang Baogang TCM Out-patient Department Co., Ltd.[(b)]	PRC/Mainland China	RMB3,000,000	–	100%	Provision of medical services
Guangzhou Tianhe Gushengtang Wushan General Out-patient Department Co., Ltd.[(b)]	PRC/Mainland China	RMB2,000,000	–	100%	Provision of medical services
Guangzhou Yuexiu Gusheng Out-patient Department Co., Ltd.[(b)]	PRC/Mainland China	RMB5,000,000	–	100%	Provision of medical services
Wuxi Gushengtang Baoyuanchun Nanchan Temple TCM Hospital Co., Ltd.[(b)]	PRC/Mainland China	RMB12,000,000	–	100%	Provision of medical services
Wuxi Gushengtang Baoyuanchun Chongan Temple TCM Hospital Co., Ltd.[(b)]	PRC/Mainland China	RMB10,000,000	–	100%	Provision of medical services
Shenzhen Gushengtang Xiangzhu Out-patient Department[(b)]	PRC/Mainland China	RMB2,000,000	–	100%	Provision of medical services

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shanghai Pudong New Area Shenhua TCM Out-patient Department Co., Ltd.(b)	PRC/Mainland China	RMB7,500,000	–	100%	Provision of medical services
Ningbo Haishu Gushengtang Liuting TCM Out-patient Department Co., Ltd.(b)	PRC/Mainland China	RMB8,000,000	–	100%	Provision of medical services
Fuzhou Xiulichun TCM Out-patient Department Co., Ltd.(b)	PRC/Mainland China	RMB16,000,000	–	100%	Provision of medical services
Lianjiang Gushengtang Out-patient Department Co., Ltd.(b)	PRC/Mainland China	RMB3,000,000	–	100%	Provision of medical services
Beijing Gushengtang Panjiayuan TCM Hospital Co., Ltd.(b)	PRC/Mainland China	RMB600,000	–	100%	Provision of medical services

Notes:

(a) As a result of the contractual agreements, the Group is exposed, or has rights, to variable returns from its involvement with Guangdong Gushengtang Health Technology Co., Limited and its subsidiaries (collectively, "Gushengtang China") and has the ability to affect those returns through its power over Gushengtang China and is considered to control Gushengtang China.

(b) The entity is registered as a limited liability company under PRC law.

(c) The company is a non-wholly-owned subsidiary of the Company.

(d) The English names of the above companies registered in Mainland China represent the best effort made by the directors of the Company (the "Directors") to translate the Chinese names as these companies have not been registered with any official English names.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the revenue of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain financial instruments, including financial assets at fair value through profit or loss, convertible bonds, and convertible redeemable preferred shares and payables for the Incentive Arrangement (as defined in note 30) which have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2021. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The 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.

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (continued)

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform — Phase 2*
Amendment to HKFRS 16	*COVID-19-Related Rent Concessions*

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and financial position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Reference to the Conceptual Framework*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKFRS 17	*Insurance Contracts*[2,5]
Amendment to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information*[2]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[2,4]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[2]
Amendments to HKAS 8	*Definition of Accounting Estimates*[2]
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[2]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[1]
Amendments to HKAS 37	*Onerous Contracts — Cost of Fulfilling a Contract*[1]
Annual Improvements to HKFRSs 2018–2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16 and HKAS 41[1]

1 Effective for annual periods beginning on or after 1 January 2022

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

3 No mandatory effective date yet determined but available for adoption

4 As a consequence of the amendments to HKAS 1, 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 in October 2020 to align the corresponding wording with no change in conclusion

5 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of the associate is included as part of the Group's investments in associates.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

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

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

Fair value measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

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

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (continued)

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the Group (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies: (continued)

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

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

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

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

Furniture, fixtures and equipment	20% to 33%
Leasehold improvements	Over the shorter of the lease terms and 20%
Motor vehicles	25%

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

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

Construction in progress represents leasehold improvements under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the leasehold improvements of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

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

Software and online platform

Software and online platform are stated at cost less any impairment loss and are amortised on the straight-line basis over their estimated useful life of 5 to 10 years based on the Group's past experiences, future business plan and observable market data.

Research and development costs

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

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

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Office building	1.25 to 15 years

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

(b) Lease liabilities

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Group as a lessee (continued)

(b) Lease liabilities (continued)

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

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

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

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

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease. Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

When the Group is an intermediate lessor, a sublease is classified as a finance lease or operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the on-balance sheet recognition exemption, the Group classifies the sublease as an operating lease.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Financial assets at fair value through profit or loss

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

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (continued)

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

Impairment of financial assets

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

General approach

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

At the end of each of the reporting period, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

General approach (continued)

Stage 1: Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2: Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3: Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans, borrowings and payables.

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

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals, lease liabilities, convertible redeemable preferred shares, convertible bonds, and interest-bearing bank loans and other borrowing and bonds payable.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

Financial liabilities at amortised cost (loans and other borrowings)

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Convertible redeemable preferred shares

The Series A, B, C, D and E of convertible redeemable preferred shares (collectively, the "Preferred Shares") issued by the Company are classified, on the basis of their component parts, as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Preferred shares issued are classified as equity if they are non-redeemable by the Company or redeemable only at the Company's option, and any dividends are discretionary. Dividends on preferred shares capital classified as equity are recognised as distributions within equity. Preferred shares are classified as financial liabilities if they are redeemable on a specific date or at the option of the shareholders (including options that are only exercisable in case of triggering events having occurred).

The Preferred Shares are redeemable upon occurrence of certain future events. These instruments can also be converted into ordinary shares of the Company at any time at the option of the holders, or automatically upon occurrence of an initial public offering of the Company, or when agreed by majority of the holders as detailed in note 26 to the financial statement.

The Group designated the Preferred Shares as financial liabilities at fair value through profit or loss. They are initially recognised at fair value. Any directly attributable transaction costs are recognised as finance costs in profit or loss. The component of fair value changes relating to the Company's own credit risk is recognised in other comprehensive income. Amounts recorded in other comprehensive income related to credit risk are not subject to recycling in profit or loss, but are transferred to retained earnings when realised. Fair value changes relating to market risk are recognised in profit or loss.

Derecognition of financial liabilities

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

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

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

Income tax

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

- when the deferred tax liabilities arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

Government grants

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

Revenue recognition

Revenue from contracts with customers

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(a) Healthcare solutions

Healthcare solutions comprise consultation and diagnosis service, prescription service, decoction service, medication and physiotherapy. These services constitute three performance obligations: i) consultation, diagnosis and prescription, ii) decoction and medication, and iii) physiotherapy. The Group allocates the transaction price to each performance obligation based on the relative stand-alone selling price. For all of the three performance obligations, control of the respective service is transferred at a point in time, i.e. upon completion of the respective service or delivery of medicative healthcare products to the customer. Revenue from consultation, diagnosis and prescription is recognised when those services are completed. Revenue from decoction and medication is recognised when the related medicative healthcare products are delivered to the customer. Revenue from physiotherapy is recognised evenly upon each of the completed services. Transactions are settled by payment from commercial insurance, the government's insurance schemes, or directly paid by bank cards, third-party payment platforms or cash from customers.

(b) Sale of healthcare products

Sale of healthcare products includes the sale of valuable medicinal herbs and nourishment and revenue from the sale of healthcare products is recognised at the point in time when control of the asset is transferred to the customer. Transactions are settled by payment from commercial insurance, the government's insurance schemes, or directly paid by bank cards or cash from customers.

Other income

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

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract liabilities

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

Share-based payments

Equity-settled transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Binomial Model, further details of which are given in notes 30(a) and 31 to these financial statements.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (continued)

Equity-settled transactions (continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using the discounted cash flow method, taking into account the terms and conditions upon which the instruments were granted, which was disclosed in note 30(b) to these financial statements. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The cumulative expense recognised for cash-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of awards that will ultimately vest. The liability is measured at the end of each reporting period up to and including the settlement date, with changes in fair value recognised in profit or loss.

Employee retirement benefits

Mainland China

As stipulated by the rules and regulations of Mainland China, the Company's subsidiaries which operate in Mainland China are required to contribute to a state-sponsored retirement plan for all their Mainland China employees at certain percentages of the basic salaries predetermined by the local governments. The state-sponsored retirement plans are responsible for the entire retirement benefit obligations payable to retired employees and the Group has no further obligations for the actual retirement benefit payments or other post-retirement benefits beyond the annual contributions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee retirement benefits (continued)

Hong Kong

Under the Mandatory Provident Fund Schemes Ordinance in Hong Kong, the Company's subsidiaries registered in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The costs of employee retirement benefits are recognised as expenses in profit or loss in the period in which they are incurred.

Borrowing costs

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

The functional currency of the Company is the USD while the presentation currency of the Company for these financial statements is the RMB as the Group mainly operates in Mainland China. Each entity in the Group determines its own functional currency and items included in the financial information of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each of the financial periods. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as the Company's net investment in a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss.

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

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

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

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Monetary item designated as the Company's net investment in a foreign operation

An inter-company loan provided by the Company to a foreign operation has been designated as the Company's net investment in a foreign operation as the directors consider that the Company would not demand the repayment of the inter-company loan from the foreign operation in the foreseeable future. If the inter-company loan is considered to be repaid in the foreseeable future and is not designated as the Company's net investment in a foreign operation, the foreign exchange difference included in the other income and gain and the exchange fluctuation reserve would have been increased and decreased by the same amount of approximately RMB7,578,000.

Significant judgement in determining the lease term of contracts with renewal options

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate the lease (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The Group includes the renewal period as part of the lease term for leases of machinery due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e., three to five years). In addition, the renewal options for leases of plant and machinery with longer non-cancellable periods (i.e., 10 to 15 years) are not included as part of the lease term as these are not reasonably certain to be exercised.

Estimation uncertainty

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2021 and 2020 was RMB688,615,000 and RMB545,110,000, respectively. Further details are given in note 16 to these financial statements.

Fair value of convertible redeemable preferred shares

The fair value of the convertible redeemable preferred shares measured at fair value through profit or loss is determined using the valuation techniques, including the discounted cash flow method, the option-pricing method and equity allocation model. Such valuation is based on key parameters about discounts for lack of marketability and volatility, which are subject to uncertainty and might materially differ from the actual results. The fair value of convertible redeemable preferred shares at 31 December 2021 and 2020 was nil and RMB1,204,204,000, respectively. Further details are included in note 26 to these financial statements.

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2021 and 2020 was RMB25,874,000 and RMB11,404,000, respectively. Further details are contained in note 28 to these financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., customer type and service type).

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the provision of a variety of healthcare businesses, including the provision of healthcare services and sale of healthcare products.

HKFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. The information reported to the directors of the Company, who are the chief operating decision-makers, for the purpose of resource allocation and assessment of performance does not contain discrete operating segment financial information and the directors reviewed the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented.

As all of the Group's revenue is derived from the PRC, and all of the Group's identifiable non-current assets are located in the PRC, no geographical information as required by HKFRS 8 *Operating Segments* is presented.

Information about major customers

No revenue from sales to a single customer or a group of customers under common control accounted for 10% or more of the Group's revenue for the reporting period.

5. REVENUE, OTHER INCOME AND GAINS

Revenue

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

	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers	**1,372,099**	925,366

(i) Disaggregated revenue information

	2021 RMB'000	2020 RMB'000
Types of goods or service		
Healthcare solutions	**1,342,996**	891,797
Sale of healthcare products	**29,103**	33,569
	1,372,099	925,366
Timing of revenue recognition		
Revenue from contracts with customers	**1,372,099**	**925,366**

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:

	2021 RMB'000	2020 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Healthcare solutions	**24,429**	16,852

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue (continued)

(ii) Performance obligations

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

Sale of healthcare products

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

Healthcare solutions

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

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

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue (continued)

(ii) Performance obligations (continued)

Healthcare solutions (continued)

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

	2021 RMB'000	2020 RMB'000
Amounts expected to be recognised as revenue within one year	**38,834**	24,429

Other income and gains

	2021 RMB'000	2020 RMB'000
Foreign exchange differences, net	**15,303**	—
Interest income	**3,525**	3,246
Rental income	**1,405**	1,125
Government grants*	**825**	1,493
COVID-19-related rent concessions from lessors	**—**	3,487
Fair value gains on financial assets at fair value through profit or loss, net	**—**	1,961
Others	**1,256**	194
	22,314	11,506

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

6. FINANCE COSTS

	2021 RMB'000	2020 RMB'000
Interest on interest-bearing bank loans and other borrowings	**8,967**	2,361
Interest on bonds payable	**7,101**	22,077
Interest on lease liabilities (note 15(b))	**12,335**	9,073
	28,403	33,511

7. LOSS BEFORE TAX

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

	Notes	2021 RMB'000	2020 RMB'000
Cost of provision of healthcare solutions		**735,635**	467,891
Cost of sale of healthcare products		**16,160**	19,985
Depreciation of property, plant and equipment	13	**25,985**	22,184
Amortisation of other intangible assets#	14	**4,058**	1,195
Depreciation of right-of-use assets	15(a)	**63,800**	42,266
Lease payments not included in the measurement of lease liabilities	15(c)	**849**	7,131
Auditor's remuneration		**3,300**	772
Listing expenses*		**42,707**	8,482
Employee benefit expense (excluding directors' remuneration (note 8)):			
Wages and salaries		**187,246**	167,062
Equity-settled share-base payments		**125,032**	15,361
Pension scheme contributions		**31,676**	(1,336)
		343,954	181,087

7. LOSS BEFORE TAX (CONTINUED)

	Notes	2021 RMB'000	2020 RMB'000
Fair value losses on convertible redeemable preferred shares	26	**409,553**	319,844
Fair value loss/(gain) on convertible bonds	27	**9,937**	(3,650)
Fair value loss/(gain) on financial assets at fair value through profit or loss, net**	5	**4,755**	(1,961)
Impairment of trade receivables*	19	**353**	623
Impairment of property, plant and equipment*		**—**	657

Included in "Administrative expenses" and "Selling and distribution expenses" in profit or loss.

* Included in "Other expenses" in profit or loss.

** Included in "Other income and gains" in profit or loss.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2021 RMB'000	2020 RMB'000
Fees	**114**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**1,563**	681
Pension scheme contributions	**84**	39
Equity-settled share-based payments	**47,279**	9
	48,926	729
	49,040	729

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 30 to these financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2021 RMB'000	2020 RMB'000
Ms. JIN Xu	38	—
Mr. LI Tie	38	—
Mr. WU Taibing	38	—
	114	—

There were no other emoluments payable to the independent non-executive directors during the year (2020: nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(b) Executive directors, non-executive directors and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Equity-settled share-based payments RMB'000	Total remuneration RMB'000
2021					
Executive director:					
Mr. Tu Zhiliang	–	688	84	47,279	48,051
Non-executive directors:					
Mr. JIANG Xiaodong	–	175	–	–	175
Mr. LIU Kanghua	–	175	–	–	175
Mr. HUANG Jingsheng	–	175	–	–	175
Mr. Gao Jian	–	175	–	–	175
Mr. Xu Yongjiu	–	175	–	–	175
	–	875	–	–	875
Total	–	1,563	84	47,279	48,926

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Equity-settled share-based payments RMB'000	Total remuneration RMB'000
2020					
Executive directors:					
Mr. Tu Zhiliang	–	681	39	–	720
Non-executive directors:					
Mr. HUANG Jingsheng	–	–	–	9	9
Total	–	681	39	9	729

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the years ended 31 December 2021 and 2020, no emoluments were paid by the Group to directors as an inducement to join or upon joining the Group as compensation for loss of office.

During the years ended 31 December 2021 and 2020, there was no bonus paid by the Group to directors.

There were no significant transactions, arrangements or contracts in relation to the Group's business to which the Group was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the years or at any time during the years ended 31 December 2021 and 2020.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2020: one), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2020: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2021 **RMB'000**	2020 RMB'000
Salaries, allowances and benefits in kind	**2,763**	3,070
Performance-related bonuses	**672**	144
Pension scheme contributions	**324**	210
Equity-settled share-based payments	**93,593**	2,052
	97,352	5,476

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

	2021	2020
Nil to HK$1,000,000	**–**	2
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**–**	–
HK$3,000,001 to HK$3,500,000	**–**	1
HK$4,500,001 to HK$5,000,000	**1**	–
HK$5,000,001 to HK$5,500,000	**1**	–
HK$5,500,001 to HK$6,000,000	**1**	–
HK$59,500,001 to HK$60,000,000	**1**	–
	4	4

During the year and in prior year, no highest paid employees waived or agreed to waive any remuneration.

During the year and in prior year, no emoluments were paid by the Group to the five highest paid employees who is not a director as an inducement to join or upon joining the Group as compensation for loss of office.

10. INCOME TAX EXPENSES/(CREDIT)

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

Cayman Islands

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax is imposed.

Mainland China

Pursuant to the PRC Income Tax Law and the respective regulations, a subsidiary which operates in Mainland China is subject to corporate income tax at a rate of 25% on the taxable income. Certain subsidiaries of the Group in Mainland China are regarded as "small and micro enterprises" and, accordingly, were entitled to a preferential income tax rate of 2.5% to 10% during the reporting period.

Hong Kong

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

	2021 **RMB'000**	2020 RMB'000
Current	**6,300**	6,465
Deferred (note 28)	**(17,436)**	7,100
Total tax (credit)/charge for the year	**(11,136)**	13,565

10. INCOME TAX EXPENSES/(CREDIT) (CONTINUED)

Hong Kong (continued)

A reconciliation of the income tax expenses/(credit) applicable to profit/(loss) before tax using the statutory rate for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense/(credit) at the effective tax rates, and a reconciliation of the applicable tax rates to the effective tax rates, are as follows:

Year ended 31 December 2021

	Mainland China		Elsewhere*		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Loss before tax	(37,631)		(480,391)		(518,022)	
Tax at the statutory tax rate	(9,408)	25.0	—	—	(9,408)	1.8
Lower tax rate for specific provinces or enacted by local authority	(13,916)	37.0	—	—	(13,916)	2.7
Tax incentive on eligible expenses	(505)	1.3	—	—	(505)	0.1
Expenses not deductible for tax	12,003	(31.9)	—	—	12,003	(2.3)
Tax losses utilised from previous periods	(4,719)	12.5	—	—	(4,719)	0.9
Tax losses not recognised	11,460	(30.5)	—	—	11,460	(2.2)
Tax losses recognised from previous periods	(6,051)	16.1	—	—	(6,051)	1.2
Tax charge at the Group's effective tax rate	(11,136)	29.6	—	—	(11,136)	2.1

10. INCOME TAX EXPENSES/(CREDIT) (CONTINUED)

Hong Kong (continued)

Year ended 31 December 2020

	Mainland China		Elsewhere*		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	117,441		(359,204)		(241,763)	
Tax at the statutory tax rate	29,360	25.0	—	—	29,360	(12.1)
Lower tax rate for specific provinces or enacted by local authority	(1,738)	(1.5)	—	—	(1,738)	0.7
Tax incentive on eligible expenses	(571)	(0.5)	—	—	(571)	0.2
Expenses not deductible for tax	5,828	5.0	—	—	5,828	(2.4)
Tax losses utilised from previous periods	(22,490)	(19.1)	—	—	(22,490)	9.3
Tax losses not recognised	3,515	3.0	—	—	3,515	(1.5)
Tax losses recognised from previous periods	(339)	(0.3)	—	—	(339)	0.1
Tax charge at the Group's effective tax rate	13,565	11.6	—	—	13,565	(5.6)

* Elsewhere represented the Group's subsidiaries incorporated in the Cayman Islands or Hong Kong.

11. DIVIDENDS

No dividend was proposed for the years ended 31 December 2021 and 2020.

12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 115,752,462 (2020: 78,000,000) in issue during the year, as adjusted to reflect the rights issue during the year.

Because the diluted loss per share amount is decreased when taking the convertible shares into account, the convertible shares have an anti-dilutive effect on the basic loss per share and were ignored in the calculation of diluted loss per share during the years ended 31 December 2021 and 2020. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the years ended 31 December 2021 and 2020, as used in the basic earnings per share calculation.

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

	2021 **RMB'000**	2020 RMB'000
Loss		
Loss attributable to ordinary equity holders of the parent, used in the basic and diluted loss per share calculations	**(507,069)**	(255,749)

	Number of shares	
Shares		
Weighted average number of ordinary shares in issue used in the basic and diluted loss per share calculation	**115,752,462**	78,000,000

13. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2021				
At 1 January 2021:				
Cost	47,392	119,056	803	167,251
Accumulated depreciation and impairments	(34,218)	(90,833)	(738)	(125,789)
Net carrying amount	13,174	28,223	65	41,462
At 1 January 2021, net of accumulated depreciation	13,174	28,223	65	41,462
Additions	14,895	32,560	2,874	50,329
Disposals	(707)	—	(296)	(1,003)
Depreciation provided during the year	(9,148)	(16,541)	(296)	(25,985)
At 31 December 2021, net of accumulated depreciation	18,214	44,242	2,347	64,803
At 31 December 2021:				
Cost	60,321	151,616	3,123	215,060
Accumulated depreciation and impairments	(42,107)	(107,374)	(776)	(150,257)
Net carrying amount	18,214	44,242	2,347	64,803

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Furniture, fixtures and equipment RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Total RMB'000
31 December 2020				
At 1 January 2020:				
Cost	41,956	110,890	946	153,792
Accumulated depreciation	(27,900)	(75,485)	(851)	(104,236)
Net carrying amount	14,056	35,405	95	49,556
At 1 January 2020, net of accumulated depreciation	14,056	35,405	95	49,556
Additions	6,679	8,166	—	14,845
Disposals	(91)	—	(7)	(98)
Depreciation provided during the year	(7,470)	(14,691)	(23)	(22,184)
Impairment provided during the year	—	(657)	—	(657)
At 31 December 2020, net of accumulated depreciation	13,174	28,223	65	41,462
At 31 December 2020:				
Cost	47,392	119,056	803	167,251
Accumulated depreciation and impairments	(34,218)	(90,833)	(738)	(125,789)
Net carrying amount	13,174	28,223	65	41,462

During the year ended 31 December 2020, impairments of RMB657,000 were provided in respect of the leasehold improvements and furniture, fixtures and equipment with a carrying value in aggregate of RMB657,000. These assets were all related to the termination of Group's medical institutions. By taking into account the fact that these assets would not be economically viable for their remaining life and there was no identified alternative usage for them, the directors of the Group assessed that the recoverable amount of these assets were nil and made a full provision for their carrying value.

14. OTHER INTANGIBLE ASSETS

	Software RMB'000	Online platform RMB'000	Total RMB'000
31 December 2021			
At 1 January 2021, net of accumulated amortisation	**4,030**	**18,729**	**22,759**
Additions	**2,674**	**—**	**2,674**
Acquisition of a subsidiary (note 34)	**—**	**10,050**	**10,050**
Amortisation provided during the year	**(1,467)**	**(2,591)**	**(4,058)**
At 31 December 2021	**5,237**	**26,188**	**31,425**
At 31 December 2021			
Cost	**8,854**	**29,259**	**38,113**
Accumulated amortisation and impairments	**(3,617)**	**(3,071)**	**(6,688)**
Net carrying amount	**5,237**	**26,188**	**31,425**
31 December 2020			
At 1 January 2020, net of accumulated amortisation	2,616	—	2,616
Additions	2,133	—	2,133
Acquisition of a subsidiary (note 34)	—	19,209	19,209
Disposal	(4)	—	(4)
Amortisation provided during the year	(715)	(480)	(1,195)
At 31 December 2020	4,030	18,729	22,759
At 31 December 2020			
Cost	6,181	19,209	25,390
Accumulated amortisation and impairments	(2,151)	(480)	(2,631)
Net carrying amount	4,030	18,729	22,759

15. LEASES

The Group as a lessee

The Group has lease contracts for office buildings used in its operations. Leases of office buildings generally have lease terms between 15 months and 15 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group, unless consent is given by the lessors. As a lessee, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for the exemptions for leases of short-term leases. The Group has elected not to recognise right-of-use assets and lease liabilities for leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

(a) Right- of-use assets

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

	2021 **RMB'000**	2020 RMB'000
At beginning of year	**184,171**	166,528
Additions	**127,772**	59,909
Depreciation charge	**(63,800)**	(42,266)
At end of year	**248,143**	184,171

15. LEASES (CONTINUED)

The Group as a lessee (continued)

(b) Lease liabilities

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

	2021 RMB'000	2020 RMB'000
At beginning of year	**198,174**	178,843
New leases	**127,718**	59,857
Accretion of interest recognised during the year	**12,335**	9,073
COVID-19-related rent concessions from lessors	**—**	(3,487)
Payments	**(77,175)**	(46,112)
At end of year	**261,052**	198,174
Analysed into:		
Current portion	**57,458**	40,029
Non-current portion	**203,594**	158,145
	261,052	198,174

The maturity analysis of lease liabilities is disclosed in note 41 to these financial statements.

15. LEASES (CONTINUED)

The Group as a lessee (continued)

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

	2021 RMB'000	2020 RMB'000
Interest on lease liabilities	12,335	9,073
Depreciation charge of right-of-use assets	63,800	42,266
Expense relating to short-term leases (included in administrative expenses)	849	7,131
COVID-19-related rent concessions from lessors	—	(3,487)
Total amount recognised in profit or loss	76,984	54,983

The Group as a lessor

The Group leases part of its office buildings under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year 2021 was RMB1,405,000 (2020: RMB1,125,000), details of which are included in note 5 to these financial statements.

16. GOODWILL

	2021 RMB'000	2020 RMB'000
At the beginning of the year:		
Cost	**547,660**	465,183
Accumulated impairment	**(2,550)**	(2,550)
Net carrying amount	**545,110**	462,633
Cost at the beginning of the year, net of accumulated impairment	**545,110**	462,633
Acquisition of subsidiaries (note 34)	**143,505**	82,477
At the end of the year	**688,615**	545,110
At the end of the year:		
Cost	**691,165**	547,660
Accumulated impairment	**(2,550)**	(2,550)
Net carrying amount	**688,615**	545,110

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units ("CGUs") by areas for impairment testing:

- Guangzhou and Foshan ("Guangzhou and Foshan CGU");
- Shenzhen ("Shenzhen CGU");
- Suzhou and Wuxi ("Suzhou and Wuxi CGU");
- Ningbo ("Ningbo CGU");
- Nanjing ("Nanjing CGU");
- Shanghai ("Shanghai CGU");
- Fuzhou ("Fuzhou CGU"); and
- Beijing ("Beijing CGU").

16. GOODWILL (CONTINUED)

Impairment testing of goodwill (continued)

In 2017, the Group acquired Blue Ocean, which acts as the primary centralized procurement channel in the Group to sell supplies to the relevant medical institutions. Furthermore, in 2020 and 2021 the Group acquired Bailu and Shanghai Wanlian for online healthcare platforms specializing in traditional Chinese medical healthcare solutions, to further enhance the online-merge-offline business model across the clinics of the Group. Therefore, management treated these assets as corporate assets and allocated the carrying amounts to each CGU based on the revenue in proportion to total revenue.

The carrying amount of goodwill allocated to each of the CGUs is as follows:

	2021 RMB'000	2020 RMB'000
Guangzhou and Foshan CGU	**162,913**	150,814
Shenzhen CGU	**63,801**	35,718
Suzhou and Wuxi CGU	**140,844**	112,365
Ningbo CGU	**112,515**	98,158
Nanjing CGU	**44,593**	41,638
Shanghai CGU	**128,096**	98,262
Fuzhou CGU	**58,767**	35,008
Beijing CGU	**94,202**	—
	805,731	571,963

The recoverable amount of each CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets or forecasts approved by management covering a period of five years. The discount rate applied to the cash flow projections was 11.1% (2020: 14.3%-14.6%) and cash flows beyond the five-year period were extrapolated using a growth rate of 3.0% (2020: 3.0%), which was the same as the long term average growth rate of the industry.

Assumptions were used in the value in use calculation of each CGU for 31 December 2021 and 2020. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Compounded revenue growth rate — The compound revenue growth rate within the reporting period is estimated based on the historical sales data and market outlook perceived by management.

16. GOODWILL (CONTINUED)

Impairment testing of goodwill (continued)

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

The values assigned to the key assumptions on market development and discount rates are consistent with external information sources.

17. INVESTMENTS IN ASSOCIATES

	2021 RMB'000	2020 RMB'000
Share of net assets	**11,004**	6,172

Particulars of the material associates are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Guangzhou Walkorld Cultural Communication Co., Ltd. ("Guangzhou Walkorld")[(a)]	Ordinary shares	PRC/Mainland China	23.5%	23.5%	23.5%	Brand billboard production and marketing
Guangzhou Yanqing Health Trading for Technology Co., Ltd. ("Guangzhou Yanqing")[(b)]	Ordinary shares	PRC/Mainland China	29.0%	29.0%	29.0%	Trading for medical equipment

Notes:

(a) During the year ended 31 December 2020, the Group acquired 23.5% equity interests in Guangzhou Walkorld from independent third parties at considerations of RMB6,000,000. Accordingly, the Group has significant influence over this company. In 2021, the Group further invested RMB881,000 and maintained the same percentage of shareholdings.

(b) During the year ended 31 December 2021, the Group invested RMB2,900,000 to establish Guangzhou Yanqing with an independent third party, and the Group has a 29% equity interest in the company, resulting in significant influence over this company. As at 31 December 2021, the Group has fully paid all the investment.

17. INVESTMENTS IN ASSOCIATES (CONTINUED)

The following table illustrates the aggregate financial information of the Group's associates:

	2021 RMB'000	2020 RMB'000
Share of the associates' profit for the year	**1,051**	172
Share of the associates' total comprehensive income for the year	**1,051**	172
Aggregate carrying amount of the Group's investments in the associates	**11,004**	6,172

18. INVENTORIES

	2021 RMB'000	2020 RMB'000
Pharmaceuticals, consumables and packaging materials	**77,364**	57,743

There was no inventory provision recognised during the years ended 31 December 2021 (2020: nil).

19. TRADE RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables	**73,639**	57,459
Impairment	**(943)**	(883)
	72,696	56,576

The individual patients of the Group usually settle payments by cash or the government's social insurance schemes. Payments by the PRC government's social insurance schemes will normally be settled in 30 to 180 days from the transaction date by the local social insurance bureau or similar government departments which are responsible for the reimbursement of medical expenses for patients who are covered by the government's medical insurance schemes. Corporate customers will normally settle the amounts by bank transfers within 90 days after the transaction date.

19. TRADE RECEIVABLES (CONTINUED)

At 31 December 2020, certain of the Group's trade receivables with an aggregate net carrying amount of approximately RMB16,256,000 were pledged to secure bank loans granted to the Group (note 25(b)).

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:

	2021 RMB'000	2020 RMB'000
Within three months	**66,971**	51,042
Three months to one year	**5,129**	5,369
Over one year	**596**	165
	72,696	56,576

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

	2021 RMB'000	2020 RMB'000
At beginning of year	**883**	550
Impairment losses, net	**353**	623
Amount written off as uncollectible	**(293)**	(290)
At end of year	**943**	883

An impairment analysis is performed at each reporting date using a provision matrix to measure ECLs. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., settlement unit). The Group classifies its settlement units into categories A and B, which represent the settlements from corporate customers and state-owned Bureau of Health Insurance Settlement Centers, respectively, based on their own credit risks. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

19. TRADE RECEIVABLES (CONTINUED)

Set out below is the information about the credit risk exposure on the Group's trade receivables using provision matrixes:

Group A

		Past due		
	Current	Less than one year	Over one year	Total
As at 31 December 2021				
Expected credit loss rate (%)	**0.1**	**6.3**	**50.0**	**10.5**
Gross carrying amount (RMB'000)	**2,275**	**5,473**	**1,193**	**8,941**
Expected credit losses (RMB'000)	**3**	**334**	**596**	**943**
As at 31 December 2020				
Expected credit loss rate (%)	0.1	6.1	45.0	10.5
Gross carrying amount (RMB'000)	2,074	5,041	1,272	8,387
Expected credit losses (RMB'000)	2	309	572	883

Group B

		Past due		
	Current	Less than one year	Over one year	Total
As at 31 December 2021				
Expected credit loss rate (%)	**—**	**—**	**—**	**—**
Gross carrying amount (RMB'000)	**64,698**	**—**	**—**	**64,698**
Expected credit losses (RMB'000)	**—**	**—**	**—**	**—**
As at 31 December 2020				
Expected credit loss rate (%)	—	—	—	—
Gross carrying amount (RMB'000)	49,072	—	—	49,072
Expected credit losses (RMB'000)	—	—	—	—

19. TRADE RECEIVABLES (CONTINUED)

Total

		Past due		
	Current	Less than one year	Over one year	Total
As at 31 December 2021				
Gross carrying amount (RMB'000)	**66,973**	**5,473**	**1,193**	**73,639**
Expected credit losses (RMB'000)	**3**	**344**	**596**	**943**
As at 31 December 2020				
Gross carrying amount (RMB'000)	51,146	5,041	1,272	57,459
Expected credit losses (RMB'000)	2	309	572	883

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2021 RMB'000	2020 RMB'000
Prepayments	**71,174**	55,293
Deposits and other receivables (note (a))	**47,304**	44,262
Amounts due from a director (note (b))	**—**	34,268
Amounts due from employees	**1,630**	9,833
	120,108	143,656
Less:		
Portion classified as non-current assets	**(10,814)**	(11,476)
	109,294	132,180

Notes:

(a) The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2021 and 2020, the loss allowance was assessed to be not material.

(b) The amount due from a director is unsecured, interest-bearing and fully settled in year 2021.

(c) At 31 December 2020, certain of the Group's prepayments, other receivables and other assets with an aggregate net carrying amount of approximately RMB60,317,000, were pledged to secure bank loans granted to the Group (note 25(b)).

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 RMB'000	2020 RMB'000
Wealth management products, at fair value	–	107,340
Derivative financial instruments, at fair value	3,207	7,085
	3,207	114,425

As at 31 December 2021, the net fair value loss/(gain) in respect of the Group's financial instruments at fair value through profit or loss recognised amounted to RMB4,755,000. (2020: loss of RMB1,961,000).

(1) Wealth management products

The Group's wealth management products as at 31 December 2021 and 2020, were issued by banks in Mainland China. They are classified as financial asset at fair value through profit or loss as their contractual cash flows do not qualify for solely payments of principal and interest.

(2) Derivative financial instruments

On 31 August 2020, the Group acquired a 100% equity interest in Bailu from the previous shareholder. According to the contractual terms, the Group agreed with the previous shareholder to adjust the considerations based on the status of the achievement of target revenue and profit in the recent years after the acquisition. The contingent consideration was recognised at the amount of RMB7,085,000 and the contingent consideration has been settled as at 31 December 2021.

On 28 February 2021, the Group acquired a 100% equity interest in Ningbo Haishu Gushengtang Liuting TCM Out-patient Department Co., Ltd ("寧波海曙固生堂柳汀中醫門診部有限公司", "Ningbo Liuting") from the previous shareholder. According to the contractual terms, the Group agreed with the previous shareholder to adjust the considerations based on the change of revenue impacted by the loss of experts after the acquisition. The contingent consideration was recognised at the amount of RMB932,000 and the contingent consideration has not been settled as at 31 December 2021.

On 30 April 2021, the Group acquired a 100% equity interest in Fuzhou Xiulichun TCM Out-patient Co., Ltd. ("福州袖裡春中醫門診有限公司", "Fuzhou Xiulichun") from the previous shareholder. According to the contractual terms, the Group agreed with the previous shareholder to adjust the considerations based on the change of revenue impacted by the loss of experts after the acquisition. The contingent consideration was recognised at the amount of RMB309,000 and the contingent consideration has not been settled as at 31 December 2021.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(2) Derivative financial instrument (continued)

On 30 April 2021, the Group acquired a 100% equity interest in Shanghai Wanlian from the previous shareholder. According to the contractual terms, the Group agreed with the previous shareholder to adjust the considerations based on the status of the achievement of target revenue in the recent years after the acquisition. The contingent consideration was recognised at the amount of RMB294,000 and the contingent consideration has not been settled as at 31 December 2021.

On 30 June 2021, the Group acquired a 100% equity interest in Beijing Gushengtang Panjiayuan TCM Hospital Co., Ltd. (北京固生堂潘家園中醫醫院有限公司, formerly known as Beijing Zhonghai TCM Hospital Co., Ltd. ("北京中海醫院有限公司", "Beijing Zhonghai")) from the previous shareholder. According to the contractual terms, the Group agreed with the previous shareholder to adjust the considerations based on the change of revenue impacted by the loss of experts after the acquisition. The contingent consideration was recognised at the amount of RMB373,000 and the contingent consideration has not been settled as at 31 December 2021.

The fair value of the contingent consideration was measured through the Scenario-Based Method. The assumptions of the expected payment date and forecasted revenue and profit are based on the best estimation of management.

22. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	2021 RMB'000	2020 RMB'000
Cash and bank balances	**634,271**	249,994
Non-pledged time deposits with original maturity of less than three months when acquired	**400,000**	—
	1,034,271	249,994
Less: Restricted cash	**(3,567)**	—
Cash and cash equivalents	**1,030,704**	249,994
Denominated in:		
RMB (note)	**834,639**	232,948
USD	**1,888**	17,009
HK$	**194,177**	37
	1,030,704	249,994

22. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH (CONTINUED)

Note:

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

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

23. TRADE AND BILLS PAYABLES

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

	2021 **RMB'000**	2020 RMB'000
Within three months	**118,508**	84,065
Three months to one year	**26,940**	11,097
Over one year	**15,884**	17,948
	161,332	113,110

Trade and bills payables are non-interest-bearing and have a credit term ranging from one to six months after the invoice date, extending to longer periods for those long-standing suppliers.

The fair values of trade and bills payables as at the end of each of the reporting periods approximated to their corresponding carrying amounts due to their relatively short maturity terms.

24. OTHER PAYABLES AND ACCRUALS

	Notes	2021 RMB'000	2020 RMB'000
Other tax payable		**8,630**	6,595
Accruals		**31,376**	13,483
Contract liabilities	(i)	**38,834**	24,429
Payable for Incentive Arrangement (note 30)		**44,638**	32,106
Salaries and welfare payable		**65,533**	88,191
Other payables	(ii)/(iii)	**132,244**	212,667
		321,255	377,471
Less:			
Non-current portion		**(44,638)**	(118,807)
Current portion		**276,617**	258,664

Notes:

(i) Details of contract liabilities as at the end of the reporting period are as follows:

	2021 RMB'000	2020 RMB'000
Healthcare solutions	**38,834**	24,429

Contract liabilities include short-term advances received for healthcare solutions. The increase in contract liabilities as at 31 December 2021 was primarily due to the increased prepayments made by the members of the Group enrolled in the membership program.

(ii) Other payables are non-interest-bearing and would be settled in a period ranging from three months to over one year.

(iii) Hua Jinming (an independent third party) entered into a convertible loan arrangement with the Company in January 2017. Based on the loan agreement, the loan is non-interest-bearing and can be converted into ordinary shares at a non-fixed conversion price. In July 2017, pursuant to the conversion notice served by Hua Jinming, Hua Jinming would exercise the right to convert the loan into 809,582 ordinary shares of the Company, contingent on the completion of registration of offshore investments by onshore individual owners under SAFE Circular 37. An amortised cost liability, representing the contingent revival of the repayment obligation of the convertible loan, was then recognised. Since then, no gain or loss was recognised with respect to the fair value changes of the aforesaid convertible loan, which was subsequently derecognised, and 809,582 ordinary shares were issued by the Company in April 2021 (note 29(c)).

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2021			2020		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loan-secured	—	—	—	3.75–6.50	2021	11,740
Bank loan-unsecured	4.04–4.09	2022	9,508	3.75–6.50	2021	72,139
Other borrowing	6.00	2022	7,970	—	—	—
			17,478			83,879
Non-current						
Bank loans-secured	—	—	—	4.25–6.50	2022–2023	194
Bank loans-unsecured	4.20–5.60	2023–2024	19,017	5.60	2022–2023	61,065
Other borrowing	6.00	2023–2029	47,818	—	—	—
			66,835			61,259
			84,313			145,138

25. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

	2021 **RMB'000**	2020 RMB'000
Analysed into:		
Bank loans:		
Within one year or on demand	**9,508**	83,879
In the second year	**9,508**	36,816
In the third to fifth years, inclusive	**9,509**	24,443
	28,525	145,138
Other borrowing:		
Within one year or on demand	**7,970**	—
In the second year	**7,970**	—
In the third to fifth years, inclusive	**23,909**	—
Beyond five years	**15,939**	—
	55,788	—
	84,313	145,138

Notes:

(a) Except for other borrowings, which are denominated in USD, all interest-bearing bank loans are in RMB.

(b) The following assets were pledged as security for interest-bearing bank borrowings:

	2021 **RMB'000**	2020 RMB'000
Trade receivables	–	16,256
Prepayments, other receivables and other assets	–	60,317
	–	76,573

(c) The Group's bank and other facilities amounted to RMB569,393,000 (2020: RMB534,050,000), of which RMB92,282,000 (2020: RMB164,822,000) had been utilized as at 31 December 2021.

26. CONVERTIBLE REDEEMABLE PREFERRED SHARES

Since the date of incorporation, the Company has completed several rounds of financing by issuing series of the Preferred Shares. For details, please refer to the following table:

	Date of issue	Purchase price (USD/Share)	Number of shares	Total consideration USD'000	Total consideration RMB'000
Series A	21 August 2014	0.33	12,000,000	4,000	24,653
Series B-1	30 April 2015	0.86	13,939,552	12,000	73,396
Series B-2	13 August 2015	0.55	10,909,091	6,000	38,406
Series B-3	29 September 2015	0.55	3,636,361	2,000	12,732
Series B-4	19 September 2020	0.70	132,367	93	643
Series C-1	13 April 2016	1.47	3,400,140	5,000	32,296
Series C-2	13 April 2016	1.56	4,816,866	7,500	48,443
Series C-3	13 April 2016	1.61	10,876,857	17,500	113,034
Series C-4	19 December 2016	1.56	3,211,244	5,000	32,818
Series D	22 March 2021	3.41	9,371,885	31,917	208,071
Series E	29 March 2021	2.83	13,340,767	37,730	243,740
Total			85,635,130	128,740	828,232

The key terms of the Preferred Share are summarised as follows:

Conversion rights

Each Preferred Share shall be convertible, at the option of the Preferred Shareholders (the "Holders") thereof, at any time after the date of issuance, and without the payment of any additional consideration by the Holder thereof, into such number of fully paid ordinary shares as is determined by dividing the applicable deemed original issue price for such series of Preferred Shares by the conversion price for such series of Preferred Shares in effect (the "Conversion Price") at the time of conversion. The Conversion Price shall be subject to adjustment from time to time, including but not limited to share splits and combinations, share dividends and distributions, reorganization, consolidations or reclassifications, and adjustment upon issuance of new securities for a consideration per share less than the conversion price.

All outstanding Preferred Shares shall automatically be converted into ordinary shares at the applicable ratio upon the closing of an IPO implying a pre-offering market capitalisation of the Company that is no less than RMB3.5 billion (the "Qualified IPO"), or with respect to each series of Preferred Shares, the date and time, or the occurrence of an event, specified in a written request for such conversion delivered to the Company by the Holders of at least a majority of the series of Preferred Shares then outstanding, voting together as a single class on an as-converted to ordinary shares basis.

Each Preferred Share shall be converted into one ordinary share, which will immediately be re-classified and re-designed as one ordinary share in the share capital of the Company with par value of USD0.0001 each with effect upon the completion of listing.

26. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

Redemption features

Redemption of Series A, Series B or Series C Preferred Shares. The Company shall, after receiving a written request signed by the Majority Series A Holders, the Majority Series B Holders or the Majority Series C Holders, redeem or repurchase, out of funds legally available therefor, from each holder of any number of shares of Series A Preference Shares, Series B Preferred Shares and/or Series C Preferred Shares that such holder requests to be repurchased, in preference to and on terms at least as favorable as those of other Shareholders, at a redemption price equal to 200% of the deemed original issue price for such Series A, Series B or Series C Preferred Shares and deducting the amount of all declared and paid dividends thereon, on or before the one-and-half year (18 months) anniversary upon the full payment of the redemption of Series E Preferred Shares, after all due R-bridge debts of the Group Companies have already been repaid at the relevant due date, when the following date or event occurs:

(i) at any time: the failure by the Company to complete a Qualified IPO on or before the fifth anniversary of the closing, or

(ii) upon the Board's determination that, upon any change of laws or policy which may result in invalidity or unenforceability of the control agreements, there is no other reasonable alternative to accomplish the purposes of the control agreements.

Redemption of Series D Preferred Shares. The Company shall, after receiving a written request signed by the Series D Holders, redeem or repurchase, out of funds legally available therefor, from each holder of any number of shares of Series D Preferred Shares that such holder requests to be repurchased, in preference to and on terms at least as favorable as those of other Shareholders, at a redemption price equal to the deemed original issue price for such Series D Preferred Shares plus an interest at a simple interest rate of (i) ten percent (10%) per annum for the period before 31 December 2019; and (ii) twelve percent (12%) per annum for the period since 1 January 2020, (both calculated on a pro rata basis in case of a partial year) and deducting the amount of all declared and paid dividends thereon, on or before 31 October 2022, after all due R-bridge debts of the Group companies have already been repaid at the relevant due date, when the following date or event occurs:

(i) at any time: the failure by the Company or its sponsors to submit the first listing application to any reputable stock exchange (including but not limited to The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), the Shanghai Stock Exchange, the Shenzhen Stock Exchange, Nasdaq and the New York Stock Exchange, for the avoidance of doubt, excluding the National Equities Exchange and Quotations) on or before 31 December 2021, or

(ii) upon the Board's determination that, upon any change of laws or policy which may result in invalidity or unenforceability of the control agreements, there is no other reasonable alternative to accomplish the purposes of the control agreements.

26. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

Redemption features (continued)

Redemption of Series E Preferred Shares. The Company shall, after receiving a written request signed by the Majority Series E Holders, redeem or repurchase, out of funds legally available therefor, from each holder of any number of shares of Series E Preferred Shares (as the case may be) that such holder requests to be repurchased, in preference to and on terms at least as favorable as those of other shareholders, at a redemption price equal to the deemed original issue price for such Series E Preferred Shares plus an interest at a simple interest rate of ten percent (10%) per annum (calculated on a pro rata basis in case of a partial year) and the amount of all declared or accrued but unpaid dividends thereon, on or before the one-and-half year (18 months) anniversary upon receiving such repurchase requests from any holder of Series E Preferred Shares, but after all due R-bridge debts of the Group companies have already been repaid, when any of the following dates or events occurs:

(i) at any time: the failure by the Company to complete a Qualified IPO on or before the fifth (5th) anniversary of the closing; or

(ii) upon the Board's determination that, upon any change of laws or policy which may result in invalidity or unenforceability of the control agreements, there is no other reasonable alternative to accomplish the purposes of the control agreements.

Termination. The redemption rights shall automatically terminate and be of no further force or effect immediately before the Company or its sponsors submit the first listing application to any reputable stock exchange (including, but not limited, to the Hong Kong Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, Nasdaq and the New York Stock Exchange, for the avoidance of doubt, excluding the National Equities Exchange and Quotations). However, if such listing application is withdrawn, revoked or terminated for any reason, then the rights and covenants for the Holders of Series A Preferred Shares, Series B Preferred Shares, Series C Preferred Shares and Series E Preferred Shares, respectively, and for the Holders of Preferred Shares, shall automatically take effect to an extent as if it had never been terminated.

Liquidation preferences

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company or any deemed liquidation event, all assets and funds of the Company Legally available for distribution, after satisfaction of all taxes, compensation, creditors' claims and claims that may be preferred by law, shall be distributed to holders of Preferred Shares with an amount per share equal to the liquidation preferences specified for such series of Preferred Shares, plus any dividends declared or accrued but unpaid thereon in the sequence below:

(a) Series E Preferred Shares;

(b) Series D Preferred Shares;

(c) Series C Preferred Shares;

(d) Series B Preferred Shares; and

(e) Series A Preferred Shares.

26. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

Liquidation preferences (continued)

If there are any assets or funds remaining after the aggregate Preferred Shares have been distributed or paid fully, the remaining assets and funds of the Company available for distribution shall be distributed ratably among all shareholders.

If upon any such liquidation, dissolution or winding up of the Company or any such deemed liquidation event, the funds and assets available for distribution to shareholders shall be insufficient to pay the holders of certain series of Preferred Shares the full amounts to which they are entitled, the holders of such preferred shares shall share ratably in any distribution of the funds and assets available for distribution in proportion to the respective amounts that would otherwise be payable in respect of the Series C Preferred Shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

Voting rights

Each Holder shall be entitled to the number of votes equal to the number of ordinary shares into which the Preferred Shares held by such Holder could be converted as of the record date. The Holders shall be entitled to vote on all matters on which the holders of ordinary shares shall be entitled to vote. Holders shall be entitled to notice of any general meeting in accordance with the articles of association. Fractional votes shall not, however, be permitted and any fractional voting rights resulting from the above formula (after aggregating all shares into which Preferred Shares held by each Holder could be converted) shall be disregarded.

Dividends

The Board may on behalf of the Company declare and pay dividends (including interim dividends) at such times and in such amounts as it shall determine. The Board may fix as the record date for determination of shareholders entitled to a dividend a date prior to the declaration of the dividend.

Presentation and classification

The Group designated the host debt and conversion derivative of the Preferred Shares as financial liabilities measured at fair value through profit or loss, presented as convertible redeemable preferred shares in the consolidated statement of financial position. Changes in fair value of Preferred Shares were recorded in “fair value changes of convertible redeemable preferred shares”. Management considered that the fair value change in the Preferred Shares attributable to changes of own credit risk is not significant.

26. CONVERTIBLE REDEEMABLE PREFERRED SHARES (CONTINUED)

Presentation and classification (continued)

The movements of the convertible redeemable preferred share are set out below:

	2021 RMB'000	2020 RMB'000
At beginning of year	**1,204,204**	963,357
Issue of Preferred Shares	**243,740**	643
Conversion into Preferred Shares from convertible bonds (note 27)	**208,071**	—
Fair value losses on Preferred Shares	**409,553**	319,844
Conversion into ordinary shares upon the completion of the IPO[a] (note 29)	**(2,024,588)**	—
Exchange realignment	**(40,980)**	(79,640)
At end of year	**—**	1,204,204

(a) Upon the completion of the IPO on 10 December 2021, each Preferred share was converted into one ordinary share.

The Group applied the discount cash flow method to determine the underlying share value of the Company and adopted equity allocation model to determine the fair value of the convertible redeemable preferred shares as at 10 June 2021 and 31 December 2020. Key valuation assumptions used to determine the fair value of the Preferred Shares are set out below:

	10 June 2021	31 December 2020
Risk-free interest rate	**2.30%**	2.57%–2.68%
Discounts for lack of marketability ("DLOM")	**9.21%**	12.73%
Volatility	**54.35%**	50.91%–57.91%
Possibilities under liquidation scenario	**5.00%**	5.00%
Possibilities under redemption scenario	**5.00%**	20.00%
Possibilities under initial public offering scenario	**90.00%**	75.00%

The Group estimated the risk-free interest rate based on the yield of the CNY China Government Bond with maturity close to the expected exit timing as of the valuation date. The DLOM was estimated based on the option-pricing method. Under the Option-Pricing Method, the cost of put option, which can hedge the price change before the privately held share can be sold, was considered as a basis to determine the lack of marketability discount. Volatility was estimated based on the annualized standard deviation of daily stock price return of comparable companies for a period from the valuation date and with a similar time span to expiration.

27. CONVERTIBLE BONDS

In 2017, the Company, Guangdong Gushengtang and certain financial institutions entered into convertible bond agreements with a total aggregate principal amount of RMB395,000,000. The bonds may be converted, at the option of the bondholders, at specific periods. The convertible bonds will be convertible into shares at a conversion price. The bonds bear interest at the annual rate of 10% before or on 31 December 2019 and 12% after 31 December 2019.

In 2018 and 2020, the convertible bonds with a total aggregate principal amount of RMB5,000,000 and RMB240,000,000 will not be converted at the option of the bondholders. The Group repaid the principal and interest earned by 30 April 2021. The remaining balance of convertible bonds of RMB208,071,000 with a principal of RMB150,000,000 was converted to Series D Preferred Shares on 22 March 2021. Details of the convertible bonds issued during the year 2021 and 2020 are as follows:

	2021 **RMB'000**	2020 RMB'000
At beginning of year	**198,134**	508,720
Fair value loss/(gain) on convertible bonds	**9,937**	(3,650)
Converted to Series D Preferred Shares (note 26)	**(208,071)**	—
Transfer to bonds payable*	**—**	(306,936)
At the end of the year	**—**	198,134

* Certain bond holders elected not to convert their bonds into preferred shares and the amounts transferred to bonds payable accordingly and such bonds were repaid in 2021.

The Group applied the Binomial Model to determine the fair value of the convertible bonds as a whole as at 22 March 2021 and 31 December 2020. Key valuation assumptions used to determine the fair value of the convertible bonds are set out below:

	22 March **2021**	31 December 2020
Risk-free interest rate	**2.49%**	2.57%–2.68%
Volatility	**57.39%**	50.91%–57.91%

The Group estimated the risk-free interest rate based on the yield of the CNY China Government Bond with maturity close to the expected exit timing as of the valuation date. Volatility was estimated based on annualized standard deviation of daily stock price return of comparable companies for a period from the valuation date and with a similar time span to expiration.

28. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

2021

	Fair value adjustments arising from acquisition of subsidiaries RMB'000
1 January 2021	4,322
Acquisition of a subsidiary (note 34)	2,513
Deferred tax credited to profit or loss during the year (note 10)	(648)
Gross deferred tax at 31 December 2021	6,187

Deferred tax assets

2021

	Impairment provisions RMB'000	Tax losses available for offsetting against future taxable profits RMB'000	Unrealised profits arising from intra-group transaction RMB'000	Total RMB'000
1 January 2021	6,812	11,404	5,160	23,376
Deferred tax credited to profit or loss during the year (note 10)	2,106	14,470	212	16,788
Gross deferred tax assets at 31 December 2021	8,918	25,874	5,372	40,164

28. DEFERRED TAX (CONTINUED)

Deferred tax liabilities

2020

	Fair value adjustments arising from acquisition of subsidiaries RMB'000
1 January 2020	—
Acquisition of a subsidiary (note 34)	4,802
Deferred tax credited to profit or loss during the year (note 10)	(480)
Gross deferred tax at 31 December 2020	4,322

Deferred tax assets

2020

	Impairment provisions RMB'000	Tax losses available for offsetting against future taxable profits RMB'000	Unrealised profits arising from intra-group transaction RMB'000	Total RMB'000
1 January 2020	8,894	17,634	4,428	30,956
Deferred tax (charged)/credited to profit or loss during the year (note 10)	(2,082)	(6,230)	732	(7,580)
Gross deferred tax assets at 31 December 2020	6,812	11,404	5,160	23,376

Deferred tax assets of RMB11,460,000 (2020: RMB3,515,000) have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilized for the years ended 31 December 2021.

29. SHARE CAPITAL

Shares

	2021 USD'000	2020 USD'000
Authorised:		
264,430,287 (2020: 78,000,000232,790,113) ordinary share of USD0.0001 each	**26**	23

	RMB'000	RMB'000
Issued and fully paid:		
230,396,458 (2020: nil) ordinary shares of USD0.0001 (equivalent to RMB0.0006) each	**147**	—

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

	Number of ordinary shares in issue	Share capital RMB'000	Share premium RMB'000	Total RMB'000
At 1 January and 31 December 2020	78,000,000	—	—	—
Issuance of ordinary shares (note (a))	9,130,456	6	191,313	191,319
Issuance of ordinary shares (note (b))	9,823,948	6	127,941	127,947
Issuance of ordinary shares (note (c))	809,582	1	9,999	10,000
Issuance of ordinary shares (note (d))	1,927,808	1	20,175	20,176
Share options exercised (note (e))	17,191,534	11	98,618	98,629
Issue of shares in connection with the IPO (note f)	27,878,000	18	660,447	660,465
Share issue expenses	—	—	(46,322)	(46,322)
Transfer from convertible redeemable preferred shares (note (g))	85,635,130	104	2,024,484	2,024,588
At 31 December 2021	230,396,458	147	3,086,655	3,086,802

29. SHARE CAPITAL (CONTINUED)

Shares (continued)

Notes:

(a) Pursuant to a series of share subscription agreements dated 27 April 2021, 9,130,456 shares were issued and allotted by the Company to various BVI holding platforms held by employees and external investors. Besides 1,970,443 shares were issued to external investors at the issue price of RMB18.27 per share, the remaining 7,160,013 shares were issued to employees at a 85% discounted price of RMB15.53 per share. The total cash consideration received by the Company is RMB147,571,000. And note 31 to these financial statements analysed the impact of share base payment expense of RMB43,748,000 in relation to the shares to certain employees.

(b) On 27 April 2021, 9,823,948 ordinary Shares were issued and allotted by the Company to various BVI holding platforms of certain external investors ("External Investors") at various share prices ranging from RMB8.58 to RMB19.99 per share as part of the corporate restructuring of the Company in exchange for certain equity interest in Guangdong Gushengtang held by the relevant External Investors, with total consideration of RMB127,947,000.

(c) On 27 April 2021, 809,582 shares of par value of USD0.0001 each, were issued by the Company to Hua Jinming (an independent third party) who converted the convertible loan to ordinary share. Details of the convertible loan are set out in note 24 to these financial statements.

(d) On 27 April 2021, 1,927,808 ordinary shares were issued and allotted by the Company to various BVI holding platforms of certain employees and consultants of the Company at the issue prices arranging from RMB10.73 to RMB11.94 each, with total consideration of RMB20,176,000.

(e) On 27 April 2021, the subscription rights attaching to 17,191,534 share options were exercised at the subscription price of USD0.35 per share, resulting in the issue of 17,191,534 ordinary shares for a total cash consideration, before expenses, of USD6,017,000 (equivalent to approximately RMB36,754,000). An amount of RMB61,875,000 was transferred from the share option reserve to the share premium upon the exercise of the share options.

(f) In connection with the IPO, 27,878,000 ordinary shares of a par value of US$0.0001 each were issued at a price of HK$29.00 per share for a total cash consideration, before deducting the underwriting fees and commissions and other estimated listing expenses, of approximately HK$808,462,000 (approximately RMB660,465,000).

(g) All Preferred Shares were converted into ordinary shares upon the completion of the IPO. Further details are included in notes 26 to these financial statements.

Details of the Company's share option schemes and the share options issued under the scheme are included in note 30 to these financial statements.

30. SHARE-BASED PAYMENTS

(a) Share option schemes

The Company has adopted a share option scheme (the "2015 Equity Incentive Plan") on 27 April 2015 and a pre-initial public offering share option scheme (the "Pre-IPO Share Option Plan") on 31 March 2021, respectively, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's business or generate superior returns to the shareholders through their outstanding performance.

The 2015 Equity Incentive Plan shall be in force for 10 years from 27 April 2015, unless otherwise cancelled or amended. Furthermore, the Pre-IPO Share Option Plan shall be valid and effective for a period commencing on 31 March 2021 and ending on 20 November 2021, being the latest practicable date prior to the printing of the Prospectus for the purpose of ascertaining certain information contained in the Prospectus, after which no further options shall be offered or granted, but in all other respects the provisions of the Pre-IPO Share Option Plan shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Pre-IPO Share Option Plan.

The exercise price for each share under the 2015 Equity Incentive Plan and Pre-IPO Share Option Plan is USD0.35 and shall be determined by the Board at its discretion and set out in the relevant grant letter, respectively.

(i) Movements in share options

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	The 2015 Equity Incentive Plan		Pre-IPO Share Option Plan		
	Average exercise price	No. of options	Average exercise price	No. of options	Total No. of options
At 1 January 2021	**USD0.35**	**17,191,534**	**—**	**—**	**17,191,534**
Granted for the year	**—**	**—**	**RMB10.0**	**16,382,286**	**16,382,286**
Exercised for the year	**USD0.35**	**(17,191,534)**	**—**	**—**	**(17,191,534)**
At 31 December 2021	**—**	**—**	**RMB10.0**	**16,382,286**	**16,382,286**
At 1 January 2020	USD0.35	16,671,534	—	—	16,671,534
Granted for the year	USD0.35	520,000	—	—	520,000
At 31 December 2020	USD0.35	17,191,534	—	—	17,191,534

30. SHARE-BASED PAYMENTS (CONTINUED)

(a) Share option schemes (continued)

(i) Movements in share options (continued)

During the year ended 31 December 2021, 11,330,176 options (2020: nil) were granted to an executive director of the Company under the above two share option schemes.

The weighted average share price at the date of exercise for share options exercised under the 2015 Equity Incentive Plan during the year was RMB21.64 per share (2020: nil). A total of 17,191,534 share options were exercised during the year under the two share option schemes, resulting in the issue of 17,191,534 ordinary shares of the Company and new share capital of USD1,700 (equivalent to approximately RMB11,000) and share premium of USD6,015,300 (equivalent to approximately RMB36,743,000) (before issue expenses). An amount of RMB61,875,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options. Furthermore, no share option under Pre-IPO Share Option Plan was exercised during the year.

No share option reserve related to the forfeited shares that have been vested was transferred to retained profits during the year (2020: nil).

(ii) Outstanding share options

The exercise prices and exercise periods of the share options outstanding under the 2015 Equity Incentive Plan and Pre-IPO Share Option Plan as at 31 December 2021 and 2020 are as follows:

2015 Equity Incentive Plan

Number of options as at 31 December		Exercise price	
2021	2020	(USD per share)	Exercise period
–	11,135,535	0.35	2016/3/1 to 2026/2/28
–	787,879	0.35	2017/3/1 to 2026/2/28
–	827,879	0.35	2018/3/1 to 2026/2/28
–	827,879	0.35	2019/3/1 to 2026/2/28
–	397,250	0.35	2020/3/1 to 2026/2/28
–	41,250	0.35	2021/3/1 to 2026/2/28
–	1,250	0.35	2022/3/1 to 2026/2/28
–	1,250	0.35	2023/3/1 to 2026/2/28
–	1,250	0.35	2024/3/1 to 2026/2/28
–	36,250	0.35	2017/3/1 to 2026/6/30

30. SHARE-BASED PAYMENTS (CONTINUED)

(a) Share option schemes (continued)

(ii) Outstanding share options (continued)

2015 Equity Incentive Plan (continued)

Number of options as at 31 December 2021	2020	Exercise price (USD per share)	Exercise period
–	38,750	0.35	2018/3/1 to 2026/6/30
–	38,750	0.35	2019/3/1 to 2026/6/30
–	38,750	0.35	2020/3/1 to 2026/6/30
–	2,500	0.35	2021/3/1 to 2026/6/30
–	32,500	0.35	2018/3/1 to 2027/2/28
–	32,500	0.35	2019/3/1 to 2027/2/28
–	32,500	0.35	2020/3/1 to 2027/2/28
–	32,500	0.35	2021/3/1 to 2027/2/28
–	62,500	0.35	2018/3/1 to 2027/6/29
–	62,500	0.35	2019/3/1 to 2027/6/29
–	62,500	0.35	2020/3/1 to 2027/6/29
–	62,500	0.35	2021/3/1 to 2027/6/29
–	3,750	0.35	2018/3/1 to 2027/12/30
–	3,750	0.35	2019/3/1 to 2027/12/30
–	3,750	0.35	2020/3/1 to 2027/12/30
–	3,750	0.35	2021/3/1 to 2027/12/30
–	104,500	0.35	2019/3/1 to 2028/6/29
–	104,500	0.35	2020/3/1 to 2028/6/29
–	104,500	0.35	2021/3/1 to 2028/6/29
–	104,500	0.35	2022/3/1 to 2028/6/29
–	17,974	0.35	2019/3/1 to 2028/9/29
–	17,974	0.35	2020/3/1 to 2028/9/29
–	17,974	0.35	2021/3/1 to 2028/9/29
–	17,974	0.35	2022/3/1 to 2028/9/29
–	256,304	0.35	2019/3/1 to 2028/12/30
–	256,304	0.35	2020/3/1 to 2028/12/30
–	256,304	0.35	2021/3/1 to 2028/12/30
–	256,304	0.35	2022/3/1 to 2028/12/30

30. SHARE-BASED PAYMENTS (CONTINUED)

(a) Share option schemes (continued)

(ii) Outstanding share options (continued)

2015 Equity Incentive Plan (continued)

Number of options as at 31 December		Exercise price	
2021	2020	(USD per share)	Exercise period
–	20,000	0.35	2020/3/1 to 2029/6/29
–	20,000	0.35	2021/3/1 to 2029/6/29
–	20,000	0.35	2022/3/1 to 2029/6/29
–	20,000	0.35	2023/3/1 to 2029/6/29
–	1,250	0.35	2020/3/1 to 2029/6/30
–	1,250	0.35	2021/3/1 to 2029/6/30
–	1,250	0.35	2022/3/1 to 2029/6/30
–	1,250	0.35	2023/3/1 to 2029/6/30
–	125,000	0.35	2020/3/1 to 2029/8/31
–	125,000	0.35	2021/3/1 to 2029/8/31
–	125,000	0.35	2022/3/1 to 2029/8/31
–	125,000	0.35	2023/3/1 to 2029/8/31
–	32,500	0.35	2021/3/1 to 2030/2/28
–	32,500	0.35	2022/3/1 to 2030/2/28
–	32,500	0.35	2023/3/1 to 2030/2/28
–	32,500	0.35	2024/3/1 to 2030/2/28
–	7,500	0.35	2021/3/1 to 2030/6/30
–	7,500	0.35	2022/3/1 to 2030/6/30
–	7,500	0.35	2023/3/1 to 2030/6/30
–	7,500	0.35	2024/3/1 to 2030/6/30
–	50,000	0.35	2021/3/1 to 2030/8/31
–	50,000	0.35	2022/3/1 to 2030/8/31
–	50,000	0.35	2023/3/1 to 2030/8/31
–	50,000	0.35	2024/3/1 to 2030/8/31
–	32,500	0.35	2021/3/1 to 2030/9/29
–	32,500	0.35	2022/3/1 to 2030/9/29
–	32,500	0.35	2023/3/1 to 2030/9/29
–	32,500	0.35	2024/3/1 to 2030/9/29

30. SHARE-BASED PAYMENTS (CONTINUED)

(a) Share option schemes (continued)

(ii) Outstanding share options (continued)

2015 Equity Incentive Plan (continued)

Number of options as at 31 December 2021	2020	Exercise price (USD per share)	Exercise period
—	7,500	0.35	2021/3/1 to 2030/12/30
—	7,500	0.35	2022/3/1 to 2030/12/30
—	7,500	0.35	2023/3/1 to 2030/12/30
—	7,500	0.35	2024/3/1 to 2030/12/30
—	17,191,534		

Pre-IPO Share Option Plan

Number of options as at 31 December 2021	2020	Exercise price	Exercise period
818,711	—	RMB15.53	2021/12/10 to 2031/12/10
8,815,348	—	RMB15.53	Within 10 years upon the date of vesting
1,696,117	—	USD0.35	2021/12/10 to 2031/12/10
3,957,606	—	USD0.35	2021/12/10 to 2031/12/10
1,094,504	—	USD0.35	Within 10 years upon the date of vesting
16,382,286	—		

30. SHARE-BASED PAYMENTS (CONTINUED)

(a) Share option schemes (continued)

(iii) Fair value of options

The directors of the Company used the Binomial Model to determine the fair value of the share options as at the respective grant dates, which is to be expensed over the relevant vesting period. The weighted average fair value of share options granted during the year ended 31 December 2021 was RMB10.0 per share (2020:RMB15.75 per share).

Other than the exercise prices disclosed above, significant judgement on parameters, such as the dividend yield, expected volatility, risk-free interest rate, and expected volatility, is required to be made by the directors in applying the Binomial Model, which are summarised below:

	2021	2020
Dividend yield (%)	**0.00**	0.00
Expected volatility (%)	**47.42**	38.47–43.20
Risk-free interest rate (%)	**2.98**	2.84–3.22

During the year, the Group has recognised a share option expense related to the two share option schemes of RMB127,656,000 (2020: RMB15,361,000) in total.

(b) Cash-settled Share-based Payment Arrangements (the "Incentive Arrangement")

In order to enhance the loyalty and motivate high performing staff and doctors, the Group adopted the Incentive Arrangement, which allows the Group's subsidiaries to issue phantom shares to the eligible participants, including doctors and employees (the "Eligible Participants"). The Eligible Participants should actively join in the business operation and building their own teams. If certain conditions are met, the Eligible Participants have the option to request the Group's subsidiaries commit to purchase back the phantom shares during the vesting period. The options vested and shall be settled in cash only if the performance of the target clinic in a period of 2 to 3 years is met. The Group accounts for the Incentive Arrangement as a cash-settled plan.

The phantom shares can be exercised up to eight years after the investment and therefore, the contractual term of the share is eight years. The liability for the options is measured, initially and at the end of each reporting period until settled, at the fair value of the phantom shares, by applying the discounted cashflow model, taking into account the terms and conditions on which the options were granted, and the extent to which the doctors have rendered services to date.

30. SHARE-BASED PAYMENTS (CONTINUED)

(b) Cash-settled Share-based Payment Arrangements (the "Incentive Arrangement") (continued)

Movements in shares

The following shares were outstanding under the Incentive Arrangement during the years ended 31 December 2021 and 2020:

	Number of share	Weighted average fair value RMB'000	Fair value of shares RMB'000
At 1 January 2020	37	671.6	24,851
Granted during the year	3	733.3	2,200
Remeasurement	—		5,055
At 31 December 2020 and 1 January 2021	**40**	**802.7**	**32,106**
Granted during the year	**15**	**446**	**6,690**
Remeasurement	**—**		**5,842**
At 31 December 2021	**55**	**811.6**	**44,638**

The carrying amount of the liability relating to the phantom shares, including in the non-current other payables, at 31 December 2021 were RMB44,638,000 (2020: RMB32,106,000).

Fair value of shares

The fair value of the phantom shares was measured through the application of the discounted cash flow method to develop the future values of the individual store operation into a present value as of the valuation date. A Seasonal ARIMA model is adopted to forecast the future revenue of each medical institution based on the characteristics of the seasonal time series of historical records for revenue. The discount rate used is the weighted average of the estimated rate of return required by equity and debt providers for an investment of this type. The required return rate from equity and debt holders relates to perceived risks. The following table lists the input to the model used:

	2021	2020
Discount rate (%)	**11.13%**	11.75%

31. SHARE AWARD

On 31 March 2021, the Company granted 7,160,013 ordinary shares ("Awarded Shares") to certain employees of the Group, with the purpose of providing incentives to eligible participants who generate superior returns to the shareholders through their outstanding performance. The eligible participants include any directors, senior management and employees of the Company and its subsidiaries, and consultant providing services to the Company, who the Board considers, in its sole discretion, have contributed to the Group. The Awarded Shares are exercisable at a subscription price of RMB15.53 each. The Awarded Shares are vested upon the grant without any other performance target requirement. As at 31 December 2021, all awarded shares were exercised.

The fair value of the Award Shares of RMB21.64 per share, is measured at the fair value of the ordinary shares on the grate date,taking into consideration the DLOM of 10.93%. The difference, between the total fair value of the Awarded Shares of RMB154,943,000 and the consideration that employees have to pay to the Company of RMB111,195,000, was treated as equity-settled share-based payment expense of RMB43,748,000, charged to profit or loss, immediately when the Awarded Shares were granted, with a corresponding increase in share premium.

32. RESERVES

The amounts of the Group's reserves and the movements therein for the reporting period are presented in the consolidated statement of changes in equity.

Share premium

The share premium account represents the amount paid by shareholders for capital injection in excess of its nominal value.

Capital reserve

The capital reserve of the Group represents the capital contributions from the then equity holders of the Group's subsidiaries, after elimination of investments in subsidiaries and any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid for acquisition of non-controlling interests in subsidiaries.

Share option reserve

The share option reserve comprises the fair value of equity-settled share-based payment granted, detailed disclosed in note 30 to these financial statements. The amount will either be transferred to the share premium account when the related options are exercised or be transferred to retained profits should the related options expire or be forfeited.

32. RESERVES (CONTINUED)

Statutory surplus reserve

In accordance with the PRC Company Law and the articles of association of the subsidiaries established in the PRC, the Group is required to appropriate 10% of its net profits after tax, as determined under the Chinese Accounting Standards, to the statutory surplus reserves until the reserve balance reaches 50% of its registered capital. Subject to certain restrictions set out in the relevant PRC regulations and in the articles of association of the Group, the statutory surplus reserves may be used either to offset losses, or to be converted to increase the share capital of the subsidiaries provided that the balance after such conversion is not less than 25% of the registered capital of them. The reserve cannot be used for purposes other than those for which it is created and is not distributable as cash dividends.

Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies whose functional currency is not RMB. The reserve is dealt with in accordance with the accounting policy set out in note 2.4 to these financial statements.

33. PROVISIONS

Our provisions consist of probable losses for the abandonment of opening certain medical institutions due to the frustration of obtaining the Medical Institution Practicing License (醫療機構執業許可證) or voluntary closure.

	2021 **RMB'000**	2020 RMB'000
At the beginning of the year	**121**	1,161
Provision accrued during the year	**–**	121
Payment during the year	**–**	(1,161)
At the end of the year	**121**	121

34. BUSINESS COMBINATIONS

2021

(a) Acquisition of Shanghai Shenhua

On 1 January 2021, the Group acquired a 100% equity interest in Shanghai Pudong New District Shenhua Chinese Medicine Clinics Co., Ltd ("上海浦東新區神華中醫門診有限公司", "Shanghai Shenhua"), an unlisted company, from an independent third party. It is mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisition was part of the Group's strategy to expand its market share in Chinese medicine service. The acquisition was satisfied by cash of RMB8,148,000 in total at the acquisition date.

(b) Acquisition of Beijing Kunlun

On 13 January 2021, the Group acquired a 100% equity interest in Beijing Kunlun Hospital Co., Ltd. ("北京市昆侖醫院有限公司", "Beijing Kunlun"), an unlisted company, from an independent third party. It is mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisition was part of the Group's strategy to expand its market share in Chinese medicine service. The acquisition was satisfied by cash of RMB5,000,000 at the acquisition date.

(c) Acquisition of Ningbo Liuting

On 28 February 2021, the Group acquired a 100% equity interest in Ningbo Liuting, an unlisted company, from an independent third party. It is mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisition was part of the Group's strategy to expand its market share in Chinese medicine service. The acquisition was satisfied by cash of RMB9,334,000 at the acquisition date. Furthermore, a contingent consideration, depending on the change of revenue impacted by the loss of experts after the acquisition, with the detailed information disclosed in note 21 to these consolidated financial statements and the fair value of contingent consideration recognised on the acquisition date was RMB932,000.

(d) Acquisition of Fuzhou Xiulichun

On 30 April 2021, the Group acquired a 100% equity interest in Fuzhou Xiulichun, an unlisted company, from an independent third party. It is mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisition was part of the Group's strategy to expand its market share in Chinese medicine service. The acquisition was satisfied by cash of RMB15,600,000 at the acquisition date. Furthermore, a contingent consideration, depending on the change of revenue impacted by the loss of experts after the acquisition, with the detailed information disclosed in note 21 to these consolidated financial statements and the fair value of contingent consideration recognised on the acquisition date was RMB309,000.

34. BUSINESS COMBINATIONS (CONTINUED)

2021 (continued)

(e) Acquisition of Lianjiang Xiulichun

On 30 April 2021, the Group acquired a 100% equity interest in Lianjiang Xiulichun TCM Out-patient Department Co., Ltd. ("連江袖裏春中醫門診有限公司", "Lianjiang Xiulichun"), an unlisted company, from an independent third party. It mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisition was part of the Group's strategy to expand its market share in Chinese medicine service. The acquisition was satisfied by cash of RMB3,000,000 at the acquisition date.

(f) Acquisition of Shanghai Wanlian

On 30 April 2021, the Group acquired a 100% equity interests in Shanghai Wanlian, an unlisted company, from an independent third party. It is mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisition was part of the Group's strategy to expand its market share in Chinese medicine service. The acquisition was satisfied by cash of RMB33,106,000 at the acquisition date. Furthermore, a contingent consideration, depending on the achievement of target revenue in the years after the acquisition, with the detailed information disclosed in note 21 to these consolidated financial statements and the fair value of contingent consideration recognised on the acquisition date was RMB294,000.

(g) Acquisition of Beijing Zhonghai

On 30 June 2021, the Group acquired a 100% equity interest in Beijing Zhonghai, an unlisted company, from an independent third party. It mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisition was part of the Group's strategy to expand its market share in Chinese medicine service. The acquisition was satisfied by cash of RMB50,485,000 at the acquisition date. Furthermore, a contingent consideration, depending on the change of revenue impacted by the loss of experts after the acquisition, with the detailed information disclosed in note 21 to these consolidated financial statements and the fair value of contingent consideration recognised on the acquisition date was RMB373,000.

34. BUSINESS COMBINATIONS (CONTINUED)

2021 (continued)

The fair values of the identifiable assets and liabilities of the subsidiaries acquired (note 34(a)~(g)) as at the dates of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Other intangible assets	14	10,050
Inventories		990
Trade receivables		7,907
Prepayments, other receivables and other assets		4,336
Cash and cash equivalents		5,176
Trade payables		(26,613)
Other payables and accruals		(20,073)
Deferred tax liabilities	28	(2,513)
Total identifiable net liabilities at fair value		(20,740)
Goodwill on acquisition	16	143,505
Total consideration		122,765
Satisfied by:		
Cash		124,673
Other intangible assets		(1,908)
		122,765

34. BUSINESS COMBINATIONS (CONTINUED)

2021 (continued)

An analysis of the cash flows in respect of the acquisition of the subsidiaries is as follows:

	2021 RMB'000
Cash considerations	124,673
Less: Prepayment in previous years	(5,625)
Cash to be paid in coming years	(42,620)
Cash and cash equivalents acquired	(5,176)
	71,252
Add: Cash paid in 2021 for acquisition in previous years	62,166
Net outflow of cash and cash equivalents included in cash flows from investing activities	133,418

Since the acquisition, the subsidiaries as mentioned above contributed RMB81,444,000 to the Group's revenue and a net gain of RMB979,000 to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021. Had the combination taken place at 1 January 2021, the revenue and loss of the Group would have been RMB126,807,000 and RMB7,089,000, respectively.

2020

(h) Acquisition of Guangzhou Yuexin

On 30 April 2020, the Group acquired a 100% equity interest in Guangzhou Yuexin General and Specialist Clinic Co., Ltd. ("廣州悅心普通專科門診部有限公司", "Guangzhou Yuexin"), an unlisted company, from an independent third party. It is mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisition was part of the Group's strategy to explore its online market in Chinese medicine service. The acquisition was satisfied by cash of RMB3,500,000 at the acquisition date.

34. BUSINESS COMBINATIONS (CONTINUED)

2020 (continued)

(i) Acquisition of Shanghai Zhongyida

On 30 April 2020, the Group acquired a 100% equity interest in Shanghai Zhongyida Chinese Medicine Clinic Co., Ltd. ("上海眾益達中醫門診有限公司", "Shanghai Zhongyida"), an unlisted companies from an independent third party. It is mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisition was part of the Group's strategy to explore its online market in Chinese medicine service. The acquisition was satisfied by cash of RMB7,200,000 at the acquisition date.

(j) Acquisition of Suzhou Tong'an

On 31 August 2020, the Group acquired a 100% equity interest in Suzhou Tong'an Clinic Co., Ltd. ("蘇州同安門診部有限公司", "Suzhou Tong'an"), a sole proprietorship, from an independent third party. It is mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisition was part of the Group's strategy to expand its market share in Chinese medicine service. The acquisition was satisfied by cash of RMB28,000,000 at the acquisition date.

(k) Acquisition of Bailu

On 31 August 2020, the Group acquired a 100% equity interest in Bailu from independent third parties. It is mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisition was part of the Group's strategy to expand its market share in Chinese medicine service. The acquisition was satisfied by cash of RMB66,000,000 at the acquisition date. Furthermore, a contingent consideration, depending on the actual revenue and profit during the year subsequent to the acquisition was recognised, with the detailed information disclosed in note 21 to these consolidated financial statements and the fair value of contingent consideration recognised on the acquisition date was RMB7,085,000.

(l) Acquisition of Zhenjiang Manshan

On 31 August 2020, the Group acquired a 100% equity interest in Zhenhai Manshan Chinese Medicine Clinic Co., Ltd. ("鎮海滿山中醫診所有限公司", "Zhenhai Manshan"), a sole proprietorship, from independent third parties. It is mainly engaged in the provision of authentic Chinese medicine service in the PRC. The acquisition was part of the Group's strategy to expand its market share in Chinese medicine service. The acquisition was satisfied by cash of RMB2,200,000 at the acquisition date.

34. BUSINESS COMBINATIONS (CONTINUED)

2020 (continued)

The fair values of the identifiable assets and liabilities of the subsidiaries acquired (note 33(h)~(l)) as at the dates of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Other intangible assets	14	19,209
Inventories		1,670
Trade receivables		1,997
Prepayments, other receivables and other assets		5,788
Cash and cash equivalents		1,130
Trade payables		(3,957)
Other payables and accruals		(3,697)
Deferred tax liabilities	28	(4,802)
Total identifiable net liabilities at fair value		17,338
Goodwill on acquisition	16	82,477
Total consideration		99,815
Satisfied by:		
Cash		106,900
Contingent consideration	21	(7,085)
		99,815

34. BUSINESS COMBINATIONS (CONTINUED)

2020 (continued)

An analysis of the cash flows in respect of the acquisition of the subsidiaries is as follows:

	2020 RMB'000
Cash considerations	106,900
Less: Cash to be paid in coming years	(69,360)
Cash and cash equivalents acquired	(1,130)
	36,410
Add: cash paid in 2020 for acquisition in previous years	2,400
Net outflow of cash and cash equivalents included in cash flows from investing activities	38,810

Since the acquisition, the subsidiaries as mentioned above contributed RMB47,816,000 to the Group's revenue and a net profit of RMB5,005,000 to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020. Had the combination taken place at 1 January 2020, the revenue and profit of the Group would have been RMB129,520,000 and RMB12,903,000, respectively.

35. PLEDGE OF ASSETS

Details of the Group's interest-bearing bank and other borrowings, which are secured by the assets of the Group, are included in note 25 to these financial statements.

36. COMMITMENTS

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

	2021	2020
	RMB'000	RMB'000
Contracted, but not provided for		
Leasehold improvement and equipment	**5,230**	2,876

37. RELATED PARTY TRANSACTIONS AND BALANCES

The directors of the Company are of the view that the following parties/companies are related parties that had material transactions or balances with the Group during the reporting period.

(a) Name and relationship of related parties

Name	Relationship
Mr. Tu Zhiliang	The executive director of the Company
Ms. Li Jie	Key management personnel of the Group
Mr. Yan Jun	Key management personnel of the Group
Mr. Qian Wei	Key management personnel of the Group
Mr. Zhang Yuwen	Key management personnel of the Group
Mr. Li Yanhui	Key management personnel of the Group
Ms. Chen Zhaoyuan	Key management personnel of the Group
Ms. Zhang Qiumin	Key management personnel of the Group

37. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Significant related party transactions during the reporting period were as follows:

	Notes	2021 RMB'000	2020 RMB'000
Loans to a director	(i)	–	1,960
Loans to key management personnel	(ii)	–	300
Interest income from loans		–	1,943

Notes:

(i) The Group entered into a loan agreement with Mr. Tu Zhiliang, in which the Group agreed to make a loan facility up to USD6 million to Mr. Tu Zhiliang. The interest income in relation to the aforesaid loans was at the rate of 6% per annum which is determined according to the prices and conditions similar to loans offered by the banks to the Group. The loans are repayable on demand.

(ii) Loans to key management personnel are unsecured, interest-free and repayable on demand and were all subsequently settled.

(c) Outstanding balances with related parties

As disclosed in the consolidated statement of financial position, the Group had outstanding non-trading balances with its related parties as at 31 December 2021 and 2020 as follows:

	Outstanding balance RMB'000	Maximum amount outstanding during the year RMB'000
31 December 2021		
Prepayments, other receivables and other assets:		
Loans due from Mr. Tu Zhiliang	–	–
Loans due from key management personnel	–	–
31 December 2020		
Prepayments, other receivables and other assets:		
Loans due from Mr. Tu Zhiliang	34,268	34,268
Loans due from key management personnel	6,176	6,176

37. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(c) Outstanding balances with related parties (continued)

The Group's outstanding balances with related parties are all non-trade in nature, unsecured and repayable on demand. The loans due from Mr. Tu Zhiliang bear interest at a rate of 6% per annum and the loans due from key management personnel are interest-free.

The Group's outstanding balances with related parties were all settled as at 31 December 2021.

(d) Compensation of key management personnel and related parties of the Group:

Details of the compensation of key management personnel of the Group are disclosed as follows:

	2021	2020
	RMB'000	RMB'000
Short term employee benefits	**10,979**	6,317
Share-based payment expense	**144,995**	2,150
	155,974	8,467

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transaction:

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB127,772,000 and RMB127,718,000 (2020: RMB59,909,000 and RMB59,857,000), in respect of lease arrangements for office building.

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank loans RMB'000	Lease liabilities RMB'000	Convertible redeemable preferred shares RMB'000	Bonds payables RMB'000
As at 1 January 2021	145,138	198,174	1,204,204	329,013
Changes from financing cash flows:				
New bank loans	112,466	–	–	–
Issue of Preferred Shares	–	–	243,740	–
Repayment of bank loans	(173,291)	–	–	–
Repayment of bond payables	–	–	–	(329,013)
Interest paid	(8,967)	(12,335)	–	(7,101)
Capital element of lease liabilities	–	(64,840)	–	–
Other changes:				
New lease liabilities arising from additional leases during the year	–	127,718	–	–
Fair value losses on the Preferred Shares	–	–	409,553	–
Conversion into Preferred Shares from convertible bonds	–	–	208,071	–
Interest expenses	8,967	12,335		7,101
Conversion into ordinary shares upon the completion of the IPO	–	–	(2,024,588)	–
Exchange realignment	–	–	(40,980)	–
As at 31 December 2021	84,313	261,052	–	–

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

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

	Interest-bearing bank loans RMB'000	Lease liabilities RMB'000	Convertible redeemable preferred shares RMB'000	Bonds payables RMB'000
As at 1 January 2020	18,055	178,843	963,357	—
Changes from financing cash flows:				
New bank loans	146,618	—	—	—
Repayment of bank loans	(19,535)	—	—	—
Interest paid	(2,361)	(9,073)	—	—
Capital element of lease liabilities	—	(37,039)	—	—
Other changes:				
New lease liabilities arising from additional leases during the year	—	59,857	—	—
Issue of Preferred Shares	—	—	643	—
Fair value losses on the Preferred Shares	—	—	319,844	—
Interest expenses	2,361	9,073	—	22,077
COVID-19-related rent concessions from lessors	—	(3,487)	—	—
Transfer from convertible bonds		—	—	306,936
Exchange realignment	—	—	(79,640)	—
As at 31 December 2020	145,138	198,174	1,204,204	329,013

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2021 RMB'000	2020 RMB'000
Within operating activities	849	7,131
Within financing activities	77,175	46,112
	78,024	53,243

39. FINANCIAL INSTRUMENTS BY CATEGORY

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

At 31 December 2021

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit or loss RMB'000	Total RMB'000
Financial assets included in prepayments, deposits and other receivables	46,842	—	46,842
Financial assets at fair value through profit or loss	—	3,207	3,207
Trade receivables	72,696	—	72,696
Restricted cash	3,567	—	3,567
Cash and cash equivalents	1,030,704	—	1,030,704
	1,153,809	3,207	1,157,016

39. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

At 31 December 2021 (continued)

Financial liabilities

	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit or loss RMB'000	Total RMB'000
Trade and bills payables	161,332	—	161,332
Financial liabilities included in other payables and accruals	132,246	—	132,246
Lease liabilities	261,052	—	261,052
Interest-bearing bank loans and other borrowings	84,313	—	84,313
	638,943	—	638,943

At 31 December 2020

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit or loss RMB'000	Total RMB'000
Financial assets included in prepayments, deposits and other receivables	85,449	—	85,449
Financial assets at fair value through profit or loss	—	114,425	114,425
Trade receivables	56,576	—	56,576
Cash and cash equivalents	249,994	—	249,994
	392,019	114,425	506,444

39. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

At 31 December 2020 (continued)

Financial liabilities

	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit or loss RMB'000	Total RMB'000
Convertible bonds	—	198,134	198,134
Convertible redeemable preferred shares	—	1,204,204	1,204,204
Trade and bills payables	113,110	—	113,110
Financial liabilities included in other payables and accruals	125,966	—	125,966
Lease liabilities	198,174	—	198,174
Bonds payable	329,013	—	329,013
Interest-bearing bank loans and other borrowings	145,138	—	145,138
	911,401	1,402,338	2,313,739

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2021	2020	**2021**	2020
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Financial assets at fair value through profit or loss	**3,207**	114,425	**3,207**	114,425

	Carrying amounts		Fair values	
	2021	2020	**2021**	2020
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial liabilities				
Interest-bearing bank loans and other borrowings	**84,313**	145,138	**84,313**	145,138
Convertible bonds	**—**	198,134	**—**	198,134
Convertible redeemable preferred shares	**—**	1,204,204	**—**	1,204,204
	84,313	1,547,476	**84,313**	1,547,476

Management has assessed that the fair values of cash and cash equivalents, trade receivables, financial assets included in prepayments, other receivables and other assets (current), trade and bills payables, financial liabilities included in other payables and accruals (current), interest-bearing bank loans and other borrowings (current), bonds payable and lease liabilities (current) approximate to their carrying amounts largely due to the short term maturities of these instruments.

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

(a) The fair values of non-current financial assets included in prepayments, other receivables, lease liabilities (non-current) and the non-current interest-bearing bank loans and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The change in fair value as a result of the Group's own non-performance risk for non-current financial assets included in prepayments, other receivables and other assets, lease liabilities (non-current) and non-current interest-bearing loans as at 31 December 2021 and 2020 were assessed to be insignificant.

(b) The fair values of wealth management products included in the financial assets at fair value through profit or loss are based on an observable input of USD Libor (3-month).

(c) The fair value of contingent consideration included in the financial assets at fair value through profit or loss is measured using the valuation technique of the discounted cash flow model using significant unobservable market inputs. For details, please refer to note 21 to these consolidated financial statements.

(d) The fair values of convertible redeemable preferred shares are determined by using the Option-Pricing Method using significant unobservable market inputs. Details of the method were disclosed in note 26 to these consolidated financial statements.

(e) The fair values of convertible bonds are determined by the Binomial Model model using significant unobservable market inputs. Details of the method were disclosed in note 27 to these consolidated financial statements.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Set out below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2021 and 2020:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value of the input
Financial assets at fair value through profit or loss — contingent consideration	Scenario-based method	Discount rate	10.03%–12.05% (2020 :14.39%)	1% (2020: 1%) increase/decrease in the discount rate would result in decrease/increase in the fair value by RMB20,000/ RMB20,000 (2020: RMB104,000/RMB107,000).
Convertible bonds	Binomial Model	Risk-free interest rate	Nil (2020: 2.57%–2.68%)	1% (2020: 1%) increase/decrease in the risk-free interest rate would result in decrease/ increase in the fair value by Nil (2020: RMB613,000/ RMB613,000).
		Volatility	Nil (2020: 50.91%–57.91%)	10% (2020: 10%) increase/ decrease in the volatility would result in increase/decrease in the fair value by Nil (2020: RMB1,990,000/RMB2,025,000).
Convertible redeemable preferred shares	Option-Pricing Method	Risk-free interest rate	1.30%–3.30% (2020: 2.57%–2.68%)	1% (2020: 1%) increase/decrease in the risk-free interest rate would result in decrease/ increase in the fair value by RMB109,000/RMB110,000 (2020: RMB815,000/ RMB839,000).
		Volatility	53.35%–55.35% (2020: 50.91%–57.91%)	1% (2020: 1%) increase/decrease in the volatility would result in increase/decrease in the fair value by RMB7,000/ RMB6,000 (2020: RMB340,000/ RMB354,000).

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value of the input
Convertible redeemable preferred shares	Option-Pricing Method	DLOM	8.21%–10.21% (2020: 11.73%–13.73%)	5% (2020: 5%) increase/decrease in the DLOM would result in decrease/increase in the fair value by RMB106,209,000/ RMB106,199,000 (2020: RMB76,849,000/ RMB77,055,000).

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2021

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	—	—	3,207	3,207

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

Assets measured at fair value: (continued)

As at 31 December 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	—	107,340	7,085	114,425

The movements in fair value measurements within Level 3 during the year are as follows:

	2021 RMB'000	2020 RMB'000
Financial assets at fair value through profit or loss		
At 1 January	**7,085**	—
Total (losses)/gains recognised in profit or loss	**(3,878)**	7,085
At 31 December	**3,207**	7,085

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

Liabilities measured at fair value:

31 December 2021

The Group did not have any financial liabilities measured at fair value as at 31 December 2021.

31 December 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Convertible bonds	—	—	198,134	198,134
Convertible redeemable preferred shares	—	—	1,204,204	1,204,204
	—	—	1,402,338	1,402,338

The movements in fair value measurements within Level 3 during the year are as follows:

	2021 RMB'000	2020 RMB'000
Financial liabilities at fair value through profit or loss		
At 1 January	**1,402,338**	1,472,077
Issue of Preferred Shares	**243,740**	643
Total losses charged to profit or loss	**419,490**	316,194
Conversion into ordinary shares	**(2,024,588)**	—
Transfer to bonds payable	**—**	(306,936)
Exchange realignment	**(40,980)**	(79,640)
At 31 December	**—**	1,402,338

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2020: Nil).

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax (through the impact on floating rate borrowings).

	Increase/(decrease) in basis points	Increase/(decrease) in loss before tax RMB'000
Year ended 31 December 2021		
RMB	**100**	**843**
RMB	**(100)**	**(843)**
Year ended 31 December 2020		
RMB	100	1,451
RMB	(100)	(1,451)

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from the use of financial instruments denominated in USD (HKD) to finance the Group's operations in the PRC and the fact that the repayment of those USD-denominated financial instruments is based on the RMB-denominated assets generated by the Group's PRC operations. The following table demonstrates the sensitivity as at 31 December 2021 and 2020 to a reasonably possible change by 5% in the USD exchange rates against RMB, with all other variables held constant, of the Group's profit before tax.

	2021 **RMB'000**	2020 RMB'000
If RMB weakens against USD by 5%		
Increase in loss before tax	**38,355**	—
If RMB strengthens against USD by 5%		
Decrease in loss before tax	**(38,355)**	—

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

	12-months ECLs Stage 1 RMB'000	Lifetime ECLs Simplified approach RMB'000	Total RMB'000
31 December 2021			
Trade receivables*	**—**	**73,639**	**73,639**
Financial assets included in prepayments, other receivables and other assets			
— Normal**	**46,842**	**—**	**46,842**
Cash and cash equivalents			
— Not yet past due	**1,030,704**	**—**	**1,030,704**
	1,077,546	**73,639**	**1,151,185**
31 December 2020			
Trade receivables*	—	57,459	57,459
Financial assets included in prepayments, other receivables and other assets			
— Normal**	85,449	—	85,449
Cash and cash equivalents			
— Not yet past due	249,994	—	249,994
	335,443	57,459	392,902

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 19 to these financial statements, respectively.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The Group finances its working capital requirements through a combination of funds generated from operations and alternative funding resources from equity and debt.

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

31 December 2021

	On demand RMB'000	Within 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Trade and bills payables	74,284	87,048	—	161,332
Financial liabilities included in other payables and accruals	—	132,244	—	132,244
Bonds payable	—	—	—	—
Convertible bonds	—	—	—	—
Convertible redeemable preferred shares	—	—	—	—
Lease liabilities*	—	72,571	228,184*	300,755
Interest-bearing bank loans and other borrowings	—	21,754	73,059	94,813
	74,284	313,617	301,243	689,144

* The breakdown of lease liabilities with maturity over 1 year is listed below:

	1–2 years RMB'000	2–3 years RMB'000	3–4 years RMB'000	4–5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Lease liabilities with maturity over 1 year	62,023	52,981	40,362	25,818	47,000	228,184

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

31 December 2020

	On demand RMB'000	Within 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Trade and bills payables	32,392	80,718	—	113,110
Financial liabilities included in other payables and accruals	—	125,966	—	125,966
Bonds payable	—	336,114	—	336,114
Convertible bonds	—	—	192,321	192,321
Convertible redeemable preferred shares	385,163	—	—	385,163
Lease liabilities*	—	48,535	180,804*	229,339
Interest-bearing bank loans and other borrowings	—	93,419	63,955	157,374
	417,555	684,752	437,080	1,539,387

* The breakdown of lease liabilities with maturity over 1 year is listed below:

	1–2 years RMB'000	2–3 years RMB'000	3–4 years RMB'000	4–5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Lease liabilities with maturity over 1 year	46,586	38,387	35,702	29,739	30,390	180,804

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. In the opinion of the directors of the Group, as at 31 December 2021, the Group has unutilized facilities of RMB477,111,000 (2020: RMB369,228,000). As a result, capital risk is not significant for the Group and measurement of capital management is not a tool currently used in the internal management reporting procedures of the Group.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is calculated based on total interest-bearing borrowings as of the end of each year divided by total equity as of the same date. The gearing ratios as at the end of the reporting periods were as follows:

	2021 RMB'000	2020 RMB'000
Total interest-bearing borrowings	**84,313**	145,138
Total equity/(deficiency in assets)	**1,548,894**	(1,133,641)
Gearing ratio	**5.4%**	N/A

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**55,069**	55,236
Total non-current assets	**55,069**	55,236
CURRENT ASSETS		
Due from subsidiaries	**1,376,256**	736,978
Cash and cash equivalents	**623,213**	8,500
Total current assets	**1,999,469**	745,478

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

	2021 RMB'000	2020 RMB'000
CURRENT LIABILITIES		
Other payables	218,275	—
Interest-bearing other borrowings	7,970	—
Bonds payable	—	329,013
Convertible redeemable preferred shares	—	1,204,204
Total current liabilities	226,245	1,533,217
NET CURRENT ASSETS/(LIABILITIES)	1,773,224	(787,739)
TOTAL ASSETS LESS CURRENT LIABILITIES	1,828,293	(732,503)
NON-CURRENT LIABILITIES		
Interest-bearing other borrowings	47,818	—
Convertible bonds	—	198,134
Total non-current liabilities	47,818	198,134
NET ASSETS/(LIABILITIES)	1,780,475	(930,637)
EQUITY/(DEFICIENCY IN ASSETS)		
Share capital	147	—
Reserves (note)	1,780,328	(930,637)
Total equity/(deficiency in assets)	1,780,475	(930,637)

Tu Zhiliang
Director

Liu Kanghua
Director

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

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

	Share premium RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2020	—	46,026	(21,649)	(680,558)	(656,181)
Loss for the year	—	—	—	(343,776)	(343,776)
Other comprehensive loss for the year:					
Exchange differences on translation of the Company's operations	—	—	53,471	—	53,471
Total comprehensive loss for the year	—	—	53,471	(343,776)	(290,305)
Equity-settled share option arrangements	—	15,849	—	—	15,849
At 31 December 2020 and 1 January 2021	—	61,875	31,822	(1,024,334)	(930,637)
Loss for the year	—	—	—	(468,742)	(468,742)
Other comprehensive loss for the year:					
Exchange differences on translation of the Company's operations	—	—	27,271	—	27,271
Total comprehensive loss for the year	—	—	27,271	(468,742)	(441,471)
Issue of ordinary shares (note 29)	349,428	—	—	—	349,428
Equity-settled share option arrangement (note 30)	—	127,656	—	—	127,656
Share options exercised (note 29)	98,618	(61,875)	—	—	36,743
Issue of shares in connection with the IPO (note 29)	660,447	—	—	—	660,447
Share issue expenses (note 29)	(46,322)	—	—	—	(46,322)
Transfer from convertible redeemable preferred shares (note 29)	2,024,484	—	—	—	2,024,484
At 31 December 2021	3,086,655	127,656	59,093	(1,493,076)	1,780,328

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment in note 2.4 to these financial statements. The amounts will either be transferred to share capital when the related options are exercised, or be transferred to retained profits should the retained options expire or be forfeited.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2022.

Four-Year Financial Summary

	Year ended 31 December			
	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
RESULT				
Revenue	**1,372,099**	925,366	896,156	726,245
Gross profit	**620,304**	437,490	391,257	292,954
Loss before tax	**(518,022)**	(241,763)	(158,827)	(177,234)
Income tax credit/(expense)	**11,136**	(13,565)	10,807	3,424
Loss for the year	**(506,886)**	(255,328)	(148,020)	(173,810)
Attributable to:				
Owner of the parent	**(507,069)**	(255,749)	(147,883)	(172,981)
Non-controlling interests	**183**	421	(137)	(829)
Loss for the year	**(506,886)**	(255,328)	(148,020)	(173,810)
Loss per share attributable to ordinary equity holders of the parent (RMB)				
Basic and diluted	**(4.38)**	(3.28)	(1.90)	(2.22)

	As at 31 December			
	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
FINANCIAL POSITION				
Non-current assets	**1,094,968**	834,526	715,446	688,353
Current assets	**1,296,832**	610,918	386,572	358,160
Current liabilities	**521,135**	2,038,084	1,310,824	377,611
Non-current liabilities	**321,254**	540,667	761,382	1,486,010
Net (liabilities)/assets	**1,549,411**	(1,133,307)	(970,188)	(817,108)
Attributable to:				
Owner of the parent	**1,548,894**	(1,133,641)	(971,136)	(818,193)
Non-controlling interests	**517**	334	948	1,085

Note: Four years' financial summary is presented as the Company was newly listed on 10 December 2021 and it is not practicable for the Company to present the financial summary of the Group prior to 2018

Definitions and Glossaries

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

"AGM"	annual general meeting of the Company
"Action Thrive"	Action Thrive Group Limited, a BVI business company with limited liability incorporated under the laws of BVI on November 5, 2020 which is indirectly wholly owned by Mr. Tu, and one of the Controlling Shareholders
"Articles of Association"	the amended and restated articles of association of the Company conditionally adopted on November 16, 2021 which became effective on the Listing Date (as amended from time to time)
"Audit Committee"	the audit committee of the Board
"Bailu"	an online healthcare platform operated by the Group
"Board" or "Board of Directors"	the board of directors of the Company
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Cayman Companies Act" or "Companies Act"	the Companies Act (2021 Revision) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
"Celestial City"	Celestial City Investments Limited, a BVI business company with limited liability incorporated under the laws of BVI on November 9, 2020 which is indirectly wholly owned by Mr. Tu, and one of the Controlling Shareholders
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Chairman"	the Chairman of the Board
"China" or the "PRC"	the People's Republic of China, but for the purpose of this annual report and for geographical reference only, except where the context requires, references in this prospectus to "China" and the "PRC" do not apply to Hong Kong, Macau and Taiwan

Definitions and Glossaries

"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
"Company" or "our Company"	GUSHENGTANG HOLDINGS LIMITED (固生堂控股有限公司), an exempted company with limited liability incorporated under the laws of the Cayman Islands on May 8, 2014, the Shares of which are listing on the Main Board of the Stock Exchange
"Consolidated Affiliated Entities"	the entities that we control through the Contractual Arrangements, namely our Onshore Holdcos and their respective subsidiaries
"Contractual Arrangements"	the series of contractual arrangements entered into by and among the WFOEs, the Consolidated Affiliated Entities and their Registered Shareholders, as further described in the section headed "Directors' Report - Connected Transactions" in this annual report
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and, unless the context otherwise requires, refers to Mr. Tu, Action Thrive, Celestial City, Dream True and Wumianshan Ltd.
"COVID-19"	an infectious disease caused by the SARS-CoV-2 virus
"Director(s)"	director(s) of the Company
"Dream True"	Dream True Limited, a BVI business company with limited liability incorporated under the laws of BVI on February 9, 2021 and wholly owned by Trident Trust Company (Singapore) Pte. Limited pursuant to the TZL Family Trust, and one of the Controlling Shareholders
"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a global market research and consulting company, which is an Independent Third Party

"Group", "Gushengtang", "we", or "us"	the Company together with its subsidiaries and Controlled Affiliated Entities controlled by it through contractual arrangements at the relevant time or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)
"Guangdong Gushengtang"	Guangdong Gushengtang TCM Health Technology Co., Ltd. (廣東固生堂中醫養生健康科技股份有限公司), a limited liability company established in the PRC on September 13, 2010 and a subsidiary of the Company
"Guangzhou Gushengtang Information Technology"	Guangzhou Gushengtang Information Technology Co., Ltd. (廣州固生堂信息技術有限公司) (formerly known as Guangzhou Gushengtang Internet Hospital Co., Ltd. (廣州固生堂互聯網醫院有限公司)), a limited liability company established in the PRC on August 18, 2017 and a subsidiary of the Company
"Guangzhou Gushengtang Oncology Out-patient Department"	Guangzhou Gushengtang TCM Oncology Out-patient Department Co., Ltd. (廣州固生堂中醫腫瘤專科門診部有限公司), a limited liability company established in the PRC on July 18, 2016 and a subsidiary of the Company
"Guangzhou Guyi"	Guangzhou Guyi Investment Holding Company Limited (廣州固益投資控股有限公司), a limited liability company established in the PRC on April 22, 2020 and a subsidiary of the Company
"Gushengtang Hong Kong"	Gushengtang Hong Kong Limited (固生堂香港有限公司), a private company limited by shares incorporated under the laws of Hong Kong on May 30, 2014
"Healthcare Capital"	Healthcare Capital Limited, a private company limited by shares incorporated under the laws of Hong Kong on January 9, 2020
"HK$"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC

Definitions and Glossaries

"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which is/are not connected (within the meaning of the Listing Rules) with any directors, chief executive or substantial shareholders (within the meaning of the Listing Rules) of the Company, its subsidiaries or any of their respective associates
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange on December 10, 2021
"Listing Date"	the date, namely December 10, 2021, on which the Shares were listed on the Stock Exchange and from which dealings in the Shares were permitted to commence on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"Macau"	the Macau Special Administrative Region of the PRC
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the GEM of the Stock Exchange
"Model Code"	the Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Mr. Tu"	Mr. Tu Zhiliang (涂志亮), the executive Director, the Chairman, the chief executive officer of the Company, and one of the Controlling Shareholders
"Ningbo Gushengtang Pharmacy"	Ningbo Gushengtang Pharmacy Co., Ltd. (寧波固生堂大藥房有限公司), a limited liability company established in the PRC on May 18, 2010 and a subsidiary of the Company
"Nomination Committee"	the nomination committee of the Board
"OMO"	online-merge-offline
"Onshore Holdcos"	Guangdong Gushengtang, Guangzhou Gushengtang Information Technology, Guangzhou Gushengtang Oncology Out-patient Department and Ningbo Gushengtang Pharmacy

"Pre-IPO Share Option Plan"	the pre-IPO share option plan approved and adopted by our Company on March 31, 2021, the principal terms of which are summarized in "Appendix IV—Statutory and General Information—D. Pre-IPO Share Option Plan" in the Prospectus
"Prospectus"	the prospectus of the Company published on November 30, 2021
"Remuneration Committee"	the remuneration committee of the Board
"Relevant Period"	the period from the Listing Date to the end of the Reporting Period
"Registered Shareholders"	the registered shareholders of Onshore Holdcos, namely Mr. Tu, Yan Jun and Zheng Xiang
"Reporting Period"	the twelve-month period from January 1, 2021 to December 31, 2021
"RMB" or "Renminbi"	the lawful currency of the PRC
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
"Share(s)"	ordinary share(s) in the share capital of the Company with par value of US$0.0001 each
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	the Stock Exchange of Hong Kong Limited
"TCM"	traditional Chinese medicine
"TZL Family Trust"	the trust arrangement established by Celestial City as the settlor, with Mr. Tu as the protector, Trident Trust Company (Singapore) Pte. Limited as the trustee and Celestial City, Mr. Tu and Mr. Tu's family members as beneficiaries
"US$", "USD" or "U.S. dollars"	United States dollars, the lawful currency of the United States

"Voting Deeds"	the voting right entrustment deed entered into between Mr. Tu and each of Gushengtang Ltd., Shiyimianshan Holdings Limited, Shiermianshan Holdings Limited, Shisanmianshan Holdings Limited, Shisimianshan Holdings Limited, Shiwumianshan Holdings Limited, Yijiakang Technology Holdings Limited, Yijiajian Technology Holdings Limited, Yijiale Technology Holdings Limited and Yijiaan Technology Holdings Limited on May 31, 2021
"WFOEs"	Guangzhou Guyi and Wumianshan Investment Holdings
"Wumianshan Investment Holdings"	Guangzhou Wumianshan Investment Holdings Co., Ltd. (廣州五面山投資控股有限公司), a limited liability company established in the PRC on May 22, 2020 and a subsidiary of the Company
"Wumianshan Ltd."	Wumianshan Ltd., one of the Controlling Shareholders and a BVI business company incorporated under the laws of the BVI on April 23, 2014 which is wholly owned by Mr. Tu
"Yan Jun"	joined the Group since June 2011 when the Group established the first TCM medical institution in Beijing and is one of the longest serving employees of the Group. He is currently a vice president of the Company (being a member of the mid-level management), and is responsible for engineering management of the Group (in particular the clinic interior decoration and renovation of the Group's TCM clinics)
"Zheng Xiang"	is a member of the senior management (vice president) of the Company after the acquisition of Bailu and is not a connected person of the Company

In this annual report, unless otherwise indicated, the terms "associate", "associated corporation", "connected person", "controlling shareholder", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules.

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GUSHENGTANG HOLDINGS LIMITED

固生堂控股有限公司